The Why? Behind The Buy™

10th Edition

ACOSTA

SALES & MARKETING

After false starts and setbacks, the U.S. economy is finally growing again. Hiring, retail sales, new-home construction and consumer confidence all rebounded in the spring. Business conditions are also improving, evidenced by increased investment spending, more orders, increased shipments and inventory growth. However, while the U.S. economy is on the upswing, growth for the grocery industry remains complex and elusive. In the 10th edition of *The Why? Behind The Buy™* surveyed in Spring 2014, we find grocery spending is trending up but unit sales are basically flat; and shoppers are engaging in shopping with renewed enthusiasm as their eating habits continue to evolve. Key trends impacting the industry include:

- The erosion of three square meals a day, the rise of snacking and the importance of breakfast
- Frozen foods attracting younger shoppers
- Health & Wellness, the megatrend with major implications for retailers (Acosta's *Health & Wellness 360°* Hot Topic Report)
- The rapidly evolving digital path-to-purchase

The key takeaway for grocery retailers and consumer packaged goods (CPG) companies: Current conditions pose great opportunity for building brand loyalty, introducing new products and growing business more than we've seen in the last six years.

Confidence Boost: This spring, the Gallop Economic Confidence index showed some of the strongest levels since reporting began in January 2008. *The Why? Behind The Buy™* survey respondents report more positive expectations for the coming year as well. Nineteen percent expect a positive change in employment and 27% expect an increase in household income.

Because We're Happy

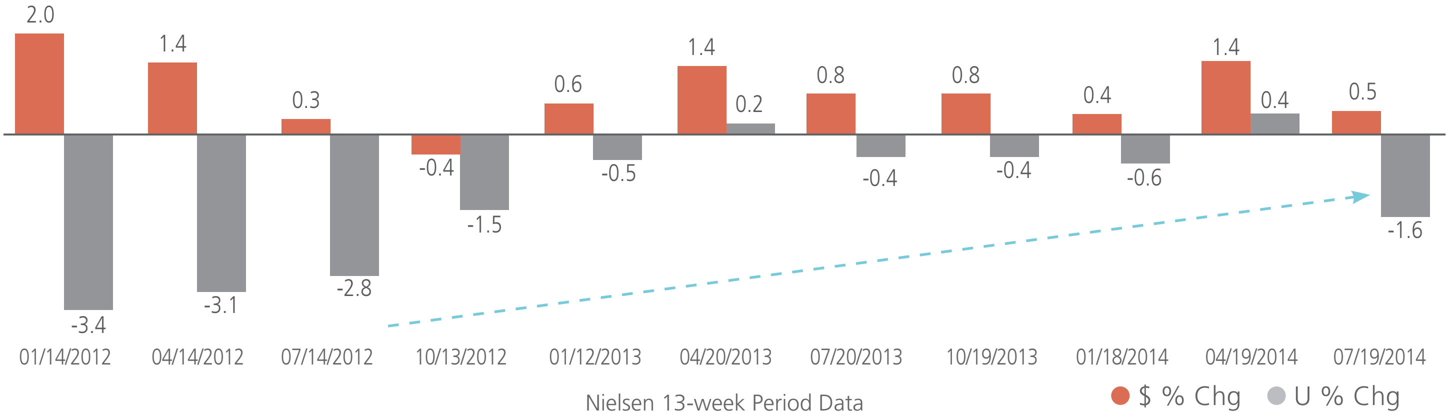
Optimism serendipitously aligned this year with Pharrell William's cheerful tune "Happy" topping the charts and the economy starting to buzz again. So perhaps it was no surprise that the majority of shoppers report they enjoy grocery shopping. Fifty-four percent of shoppers say they enjoy grocery shopping, only eight percent report they do not enjoy grocery shopping, and the remainder are indifferent. There are marked increases in grocery shopping enjoyment by ethnic groups: 72% of Asian/Americans, 67% of African/Americans and 66% of Hispanics enjoy shopping. But perhaps the news that will make CPG companies and grocery retailers the happiest: a whopping 64% of Millennials report they enjoy grocery shopping.

Shopper Spending

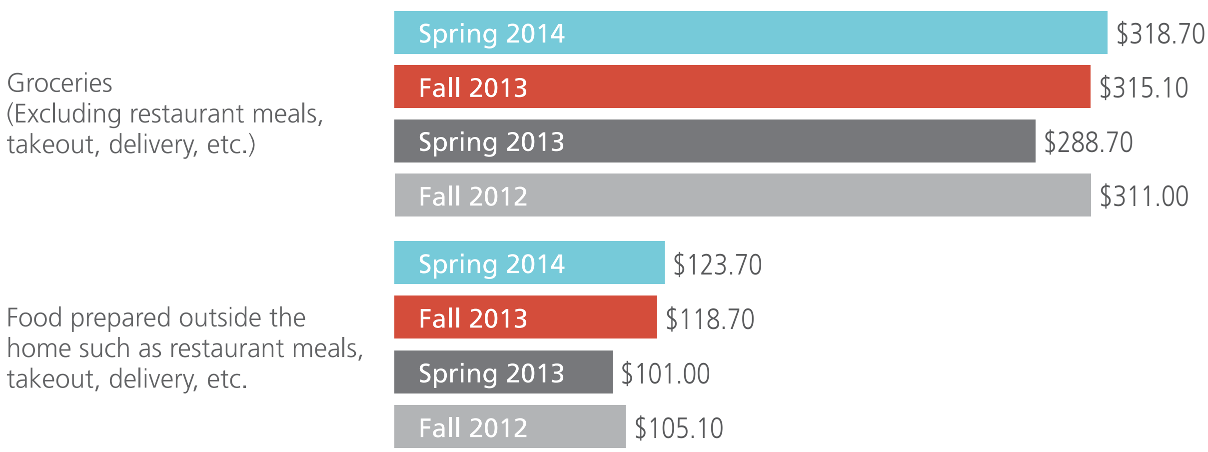
Although shoppers reported monthly grocery spending is on the rise, price inflation is likely driving some of the dollar gains. Total U.S. grocery sales volume is sluggish and unit sales are down in the most recent quarter. In Acosta's current survey, shoppers reported monthly grocery spending of $318.70, the highest reported since Acosta began *The Why? Behind The Buy™* survey in 2009.

Total U.S. Food
(Total Store Sales % Chg vs. YAG Period)

Positive dollar and unit growth was seen for the period ending 4/19/14



In an average month, about how much does your household spend on the following?



SNAP

More than 46 million American households have benefitted from the Supplemental Nutrition Assistance Program (SNAP), so far this year. SNAP participation increased during the recession by a whopping 70%, but participation growth started flattening out when unemployment levels began to drop.

Most U.S. shoppers use debit cards and cash to pay for groceries, but 18% of *The Why? Behind The Buy*™ survey respondents reported using SNAP to pay for groceries. Our survey found significantly more shoppers under the age of 49, and Hispanic and African American shoppers using SNAP. Regional variances are also notable - the south and southeast are the regions showing the highest percentage of shoppers using SNAP. To save money, SNAP shoppers report switching to less expensive brands (59% of SNAP shoppers vs. 40% of total U.S. shoppers) and purchasing a lot of store brands (63% of SNAP shoppers vs. 54% of total U.S. shoppers).

Snacking: Thinking Outside the Square

Time-starved mobile lifestyles, generational shifts, a rise in single-person households, and diet trends have all contributed to the growth in snacking and the subsequent decline in eating 'three square meals a day.' The percent of Americans who snack three or more times a day rose to 56% in 2010, according to the latest available government data, up significantly from roughly 20% in the 1990's and 10% in the late 1970's. Instead of three square meals a day, U.S. shoppers are averaging two meals a day and at least one snack. Many are grazing throughout the day and skipping full meals altogether. Growth of snack food categories is outpacing growth of traditional meal products. According to Euromonitor International, between 2008 and 2013, U.S. retail sales of soups grew 0.4%, and pasta averaged 1.3% annual growth while same time sales of chips rose 4.2%, snack bar sales grew 5.4% and nut sales grew 7.8%. By 2018, Mintel predicts snacking will grow 31% to $28.6 billion.

Acosta's *The Why? Behind The Buy™* survey found that nearly seven in 10 of those who are snacking report having eaten a snack in place of a meal at least once in the past month. Of all the generations, Millennials are the least likely to say they eat three meals a day, and snacks are playing an important role in their daily eating habits. They are also most likely to have purchased a snack item right before eating it. Compared to other generations, Millennials are significantly more likely to snack on protein/energy bars, smoothies/blended drinks, and energy drinks.

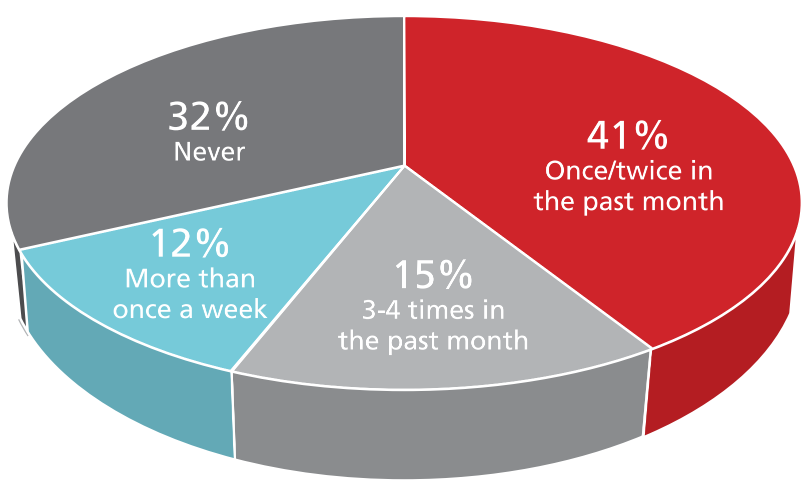
Fresh fruit is the most popular snack food across all generations.

Snacking behaviors also vary by region, with only 16% of shoppers in California who would describe their typical snack as an indulgent treat versus 35% of shoppers in the mid-south region. The area with most frequent snacking: the Plains region.

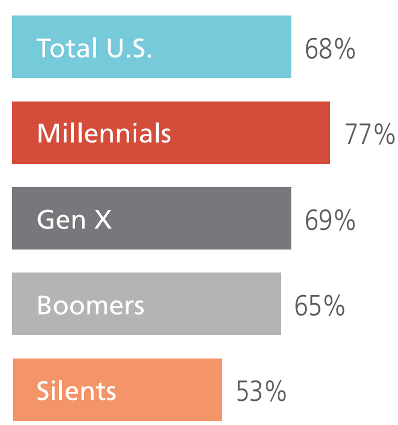
How would you describe your typical snack?

In the past month, have you ever skipped a meal, and eaten a snack instead of a meal?

Total U.S. Shoppers



Ever eaten a snack in place of a meal in the past month? (any frequency)



Breakfast

Most consumers believe breakfast is important for good health, which is especially true for children and adolescents. According to the American Dietetic Association, children who eat breakfast perform better in the classroom and on the playground, with better concentration, problem-solving skills, and eye-hand coordination.*

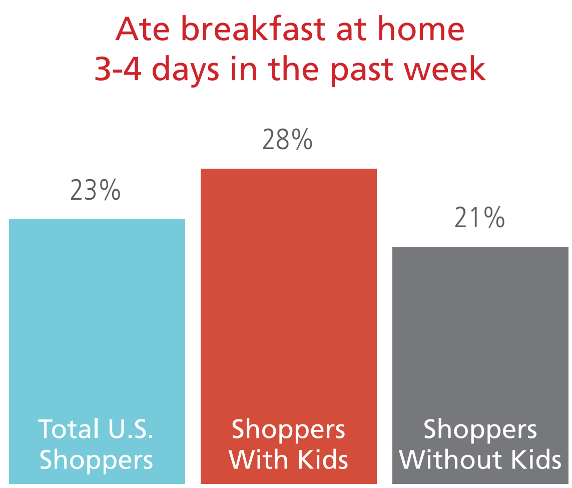
Shoppers surveyed for *The Why? Behind The Buy*™ reported they prepare breakfast at home more frequently than stopping at a restaurant, and shoppers with children in their household were significantly more likely to have prepared a breakfast at home 3-4 days in the past week than those without children. Older shoppers are significantly more likely to have prepared and eaten breakfast at home in the past week than Millennials.

According to Technomic, 63% of consumers believe it is unhealthy to skip breakfast.

**SOURCE: webmd.com; Kathleen M. Zelman, MPH, RD, LD*

Health & Wellness

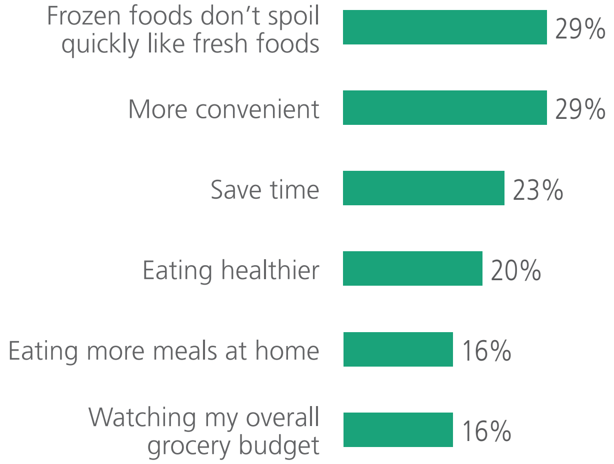
From the increase in perimeter store traffic and healthy food-oriented retailers to the growth in gluten-free, organic and benefit-packed products, health and wellness is having a major impact on the grocery industry and shopper behaviors. In fact the health and wellness mega-trend is influencing all the micro trends featured within this *The Why? Behind The Buy*™ report, from snacking to frozen foods. Acosta Sales & Marketing's recent *Health & Wellness 360˚* Hot Topic Report features in-depth research on the health and wellness megatrend, and actionable insights for retailers and CPG companies. Download the *Health & Wellness 360˚* Hot Topic report at www.Acosta.com/hottopicreports.



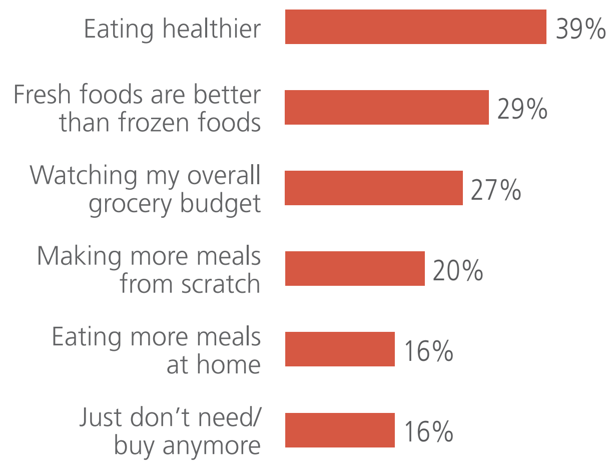
Warming Up to Frozen Foods

While frozen foods have been experiencing sales declines, there may be a brighter future for frozen foods with younger generations. Thirty percent of Millennials and 21% of Gen X shoppers say they purchased more frozen foods in the past year, and 21% of Millennials and 17% of Gen X shoppers reported shopping new frozen food categories in the past year. Although the vast majority of shoppers don't expect to increase spending on frozen foods, 16% of Millennial shoppers expect to spend more on frozen foods in the coming year and appreciate the convenience and shelf life benefits of frozen items.

Which best describe why you're expecting to SPEND MORE on frozen foods in the coming year?



Which best describe why you're expecting to SPEND LESS on frozen foods in the coming year?



Engaging with Digital Grocery Technology

Smartphone use is exploding, with the number of shoppers using a smartphone almost doubling in just the last two years. The 'everything at your fingertips' device is reshaping grocery shopping. Younger and Hispanic shoppers are leading the way, using mobile technology via smartphones and tablets for pre-shop planning, in-store efficiency and post-shop engagement. More than four in 10 Millennial shoppers and 33% of Hispanic shoppers use a digital method of keeping their grocery list, versus the traditional paper list.

Grocery and recipe apps generate grocery lists and provide barcode capabilities for convenience and easy comparison shopping.

Digital shopping is also growing rapidly among those earning $100k+. Eighty-four percent of these high-income shoppers use smartphones and leverage digital tools. Those earning less than $45k annually also show a doubling in smartphone use to 53% of shoppers surveyed, up from 24% just two years ago.

The Digital Path-to-Purchase

Millennial shoppers are leading the way along a new digital path to purchase.

Total U.S. | Millennials

Pre-Purchase	Total U.S.	Millennials
Read/review a store's digital flyer/circular	27%	38%
Visit store's website to learn about deals	24%	35%
Load a coupon onto your shopper card from a website	23%	35%
Open/read email from store	19%	30%

In-Store	Total U.S.	Millennials
Use a shopping list on your mobile device	17%	34%
Send/receive text/voicemail to family member asking about product	14%	29%
Scan barcode/QR code in-store to get product/deal info	13%	28%
Use mobile device to look up product health/nutrition info	13%	27%

After Shopping	Total U.S.	Millennials
Log into store loyalty program/ update points/trip info	22%	32%
Complete store's customer satisfaction survey	19%	28%
Sign up for store/product sweepstakes, contest or game	18%	28%
Share a promotion and/or coupon with friends/family via social media	14%	29%

Importance of these tools in grocery shopping (% Top 2 Box: Extremely/Very Important)

Paper Remains

Older shoppers still rely on paper lists and view their weekly circular via the mail, newspaper and in-store. This is especially true among shoppers 49+, while roughly one quarter of shoppers now view circulars online at the store's web site.

Recommendations

With favorable economic conditions, improved consumer confidence and more shopper engagement, retailers and CPG companies have the best environment in years for expanding market share, building loyalty and growing profits.

Push the Digital Envelope

Millennials and future generations will continue to adapt to new technologies at faster and faster rates. The time has come to make digital leaps instead of incremental changes. Create new ways for shoppers to digitally engage with stores and brands. Use technology to make shopping not just easier but fun. Take a risk. Don't eschew the wow and cool factors. This is an area where practicality rarely wins out.

Think Outside the Square

Don't discount snacking as a fad. It's hard to imagine that consumers will ever revert to a habit of three square meals a day, especially with enhanced snacks that pack a major nutritional punch. Get your share of this growing market by 'innovating by collaborating' (see the next recommendation).

Collaborate to Innovate

With so many factors at play, from digital shopping to the health and wellness focus, innovation cannot be confined to the product development division. Get inclusive. Mine data. Bring everyone to the table, so to speak. A new frozen ethnic breakfast food product that features gluten-free, organic ingredients, can be eaten 'on the go' and is marketed via wearable exercise devices takes a team effort.

Get Healthy

The most significant trend impacting the industry, health and wellness does not have to be at odds with even the most indulgent dessert or caloric salty snack. Consumers still want pleasure in their food, but are more often making smarter choices such as baked chips and all-natural ice cream. Help consumers better understand healthy food choices, such as the benefits of frozen vegetables, and look for ways to be an advocate for shoppers' health and a partner they can trust. For more insight about the health and wellness trend and recommendations for the grocery industry, see Acosta's *Health & Wellness 360°* Hot Topic report report at www.Acosta.com/hottopicreports.

Stay a Step Ahead

Now is the time to move your retail store, brand and products forward. Following several years of maintenance mode, shoppers are showing renewed enthusiasm for shopping. Engage shoppers by surprising them. Create demand by delighting them. Gain loyalty by understanding them.

Study Generation Definitions
Millennials/Gen Y: ages 18-33
Gen X: ages 34-48
Boomers: ages 49-69
Silents: ages 70+

ACOSTA SALES & MARKETING

Acosta is the sales and marketing powerhouse behind most of the trusted brands seen in stores every day. The company provides a range of outsourced sales, marketing and retail merchandising services throughout the U.S. and Canada. For more than 85 years, Acosta has led the industry in helping consumer goods companies move products off shelves and into shoppers' baskets. For more information, visit www.acosta.com.

The Why? Behind the Buy™ survey is fielded biannually, and this study was fielded in April 2014. For more information about this report or other strategic insights research, please email thoughtleadership@acosta.com.