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FEATURE: Nielsen Report: Keeping up With the Economy: Insights and Opportunities

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-By Todd Hale and James Russo

These days, it's difficult to go 24 hours without being hit with sobering news about the economy. Homes and stock portfolios have lost value, credit markets are tight, income growth in existing jobs remains flat, and unemployment is on the rise. At the same time, consumers are experiencing higher prices for food, fuel, health care and education. Not surprisingly, many are anxious.

Facing uncertain times, consumers are changing where they shop, how often, and the products they purchase as their confidence in the economy and their security within it continues to be tested. The Nielsen Company has identified several new trends making their presence felt in checkout lines across the country. Far from all doom and gloom, however, these trends represent real opportunities for grocery retailers and consumer packaged goods (CPG) manufacturers to engage customers, deliver value and reposition offerings to better align with and succeed in today's economic realities.

Changing Retail and Consumer Landscapes

According to Nielsen's Global Consumer Confidence survey, subtle shifts in consumer attitudes and behavior first began appearing as early as the fourth quarter of 2007. Those shifts intensified as the economic outlook weakened throughout 2008, becoming most pronounced in September 2008 when the U.S. stock market took a significant downturn.

By the end of 2008, most retail channels had experienced declines in the average number of shopping trips per consumer, with those focused on value and/or food receiving the most traffic. The online channel grew the most, increasing trips by 6.1 percent as consumers increasingly took to the Internet to secure the best available deals. Other winners in the current climate include dollar stores (with a trip increase of 3.6 percent), mass superstores (3.2 percent) and club stores (1.4 percent). As we get deeper into this recession, however, even the winners are starting to see trip declines. Retailers losing the most trips were those considered discretionary, including department stores (-8 percent), toy stores (-7.1 percent), office supply stores (-6.9 percent) and nearly all other nonfood-related retail outlets.

While the current recession has affected certain areas of the United States more than others, its breadth and depth have touched all income groups. Lower-income households are experiencing a tightening job market, housing pressure and a reduction in available credit, while upper-income households are not immune to job losses and have seen the value of their homes and stock market investments decline significantly.

When it comes to behavior, lower-income consumers tend to be more price-sensitive, decreasing store trips at the fastest rate. About one-third of consumers appear to be "recession insensitive" or "recession indifferent." Those with higher annual incomes ($70,000 or more) are driving trip increases, but rather than shopping at upscale retailers, they are making more trips to value retailers, such as supercenters, club and dollar stores.

A New Product Mix: Back to Basics and Private Label

Just as consumers are changing where they shop in search of the greatest value, they are shifting to less expensive product options in all categories, trading down from fresh vegetables to frozen and canned varieties, from branded products to private label brands. If it's not considered a necessity, chances are good that consumers won't be buying as much of it in 2009. "Nice-to-have" products have seen sales declines in both high-end and low-end categories.

In addition, consumers are now more likely to include private label products in their preferred brand portfolios. In fact, private label brands hit an all-time high in unit sales and dollars at the end of 2008. Given the investment grocery retailers have made in quality improvements, product development and marketing their private label lines, 2009 should be another strong year for private label brands as well.

Value Is King

The global economic downturn has put a premium on value over convenience and selection. Consumers expect low prices but may be willing to pay more for larger economy sizes and a lower cost-per-serving. When asked how they would prefer manufacturers to address a price increase in raw materials, 47 percent of consumers tell Nielsen that they would prefer to purchase larger sizes with lower per-serving/per-use costs.

Value messaging infuses today's merchandising, marketing and advertising programs. As gas prices dropped at the end of 2008, Save-A-Lot changed its successful "Fuel Your Family for Less than the Price of a Gallon of Gas" program to "Fuel Your Family for Less," offering more than 30 meal solutions to feed a family of four for less than $5. Other grocers have implemented their own meal solution programs at different price points ($8/$10 per meal). Grocers like Wegmans and Giant Eagle have widely advertised price cuts in anticipation of lower production costs.

In addition, retailers are using technology to engage consumers in new ways, helping them stretch each dollar further. Stop & Shop hosted online affordable food summits, in which it taught consumers how to lower their grocery bills. Home Depot offered classes on how to cut energy bills, and Wal-Mart hired a family financial expert to host online chats to teach shoppers how to save money, pay down credit cards or sell a home.

The Big Night ~~Out~~ In

In 2001, "nesting" became a trend driven primarily by security concerns. Today, economic pressures are behind the rise of a similar trend. Consumers are staying in more and going out less. TV viewing is up, while movie attendance is flat. Instead of a dinner and a movie out, more families are opting for eating at home and playing Guitar Hero. Interestingly, the No. 1 item in sales at the end of 2008 was canning and freezing supplies. Baking products are also doing well, as is wine, reflecting a return to baking from scratch and entertaining at home. More people report bringing lunch to work and eating at their offices, creating a number of new meal solution opportunities for grocery manufacturers and retailers.

Looking ahead, and barring any drastic changes, current consumer behavior is expected to intensify. To stay ahead of the curve, grocery retailers and CPG manufacturers should consider the following:

Stay in the Game. When possible, continue to explore new store formats and locations, and/or maintain your marketing and ad spending. Focus on innovation and differentiation. History has shown us that companies that continue marketing in a downturn will generally perform better coming out of a recession than companies that bail out when times get tough.

Communicate. Communicate. Communicate. In difficult times, it's imperative for retailers and manufacturers to communicate with their customers — informing and listening, online and in-store. Today's consumers are looking for the best deals online and then spreading the word through social networking sites. They want to be heard, they want to be engaged, and they are looking for help.

Understand and Articulate Your Value. Value is the single most important selling point in today's climate. Every company needs to be able to articulate its value proposition in ways that are meaningful to consumers. Value promotions, layaway and coupons are growing in importance, but they need to create value and deliver on an aspiration.

Reach Consumers Where They Live. With more people eating and entertaining at home, there are significant opportunities in marketing and positioning products that can comfort, enliven and enhance the home experience.

Expand and Market Your Store Brands. Given consumers' growing willingness to embrace private label products, now is the time to explore new private label opportunities and marketing programs to build brand loyalty.

The Road Ahead

Clearly, these are challenging times for consumers and businesses alike. The current economic downturn has forced consumers to rethink their buying habits to stay afloat, and industries to retool business strategies to remain competitive. The way forward is based on an in-depth understanding of today's consumer's wants and needs, hopes and fears, likes and dislikes. Today, perhaps more than ever before, retailers and CPG companies that understand consumers, product categories and channel activity at an increasingly granular level will be in a better position to deliver new solutions and drive success.

Todd Hale is SVP, consumer & shopper insights, and James Russo is VP, marketing, at The Nielsen Company, Progressive Grocer's parent company.

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