

Food and Agribusiness Market Update

Industry Consulting Team | Q2 2023

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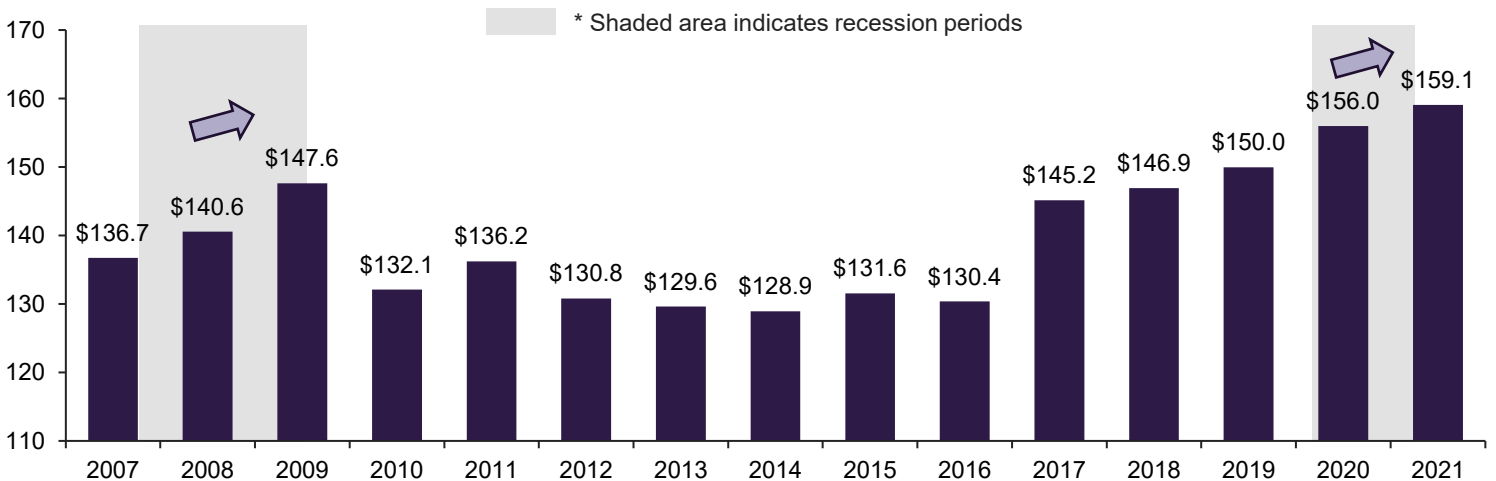
Highlights

- Understanding the impact of economic downturns and how they affect consumer shopping habits is essential for business owners as they prepare for fast-evolving trends in the food and agribusiness industry
- Although no two recessions are alike and should not be directly compared to others, there are similar patterns and consumer trends that can provide companies with valuable insights to develop strategies and build customer loyalty

Recessionary Impact on Frozen Food Sales

- A notable effect on consumer shopping habits during an economic downturn is evidenced by the increase in frozen food sales
- During the Great Recession, spanning from late 2007 to 2009, per capita frozen food expenditures saw a significant uptick of 8% and remained elevated during the COVID recession
- Additionally, refrigerated/frozen foods drove over 90% of the private label sales of warehouse stores like Costco and Sam's Club
- This rise in frozen food sales can be attributed to several factors:
 - During recessions, consumers tend to shift from mid-tier to bargain brands, seeking more cost-effective options
 - Frozen foods are an appealing choice for consumers because they are easy to cook and cost less than fresh products
 - Frozen food can be stored for a longer time period which helps consumers prepare for economic uncertainties
- Another interesting statistic is the increased sale of home freezers during recessions—at the beginning of the COVID pandemic, upright freezer sales surged by 45%, and chest freezers saw a 36% increase
- Although the surge may be attributed to the fear and uncertainty surrounding the pandemic, there is evidence from the Great Recession suggesting a similar trend where freezer sales increased while other appliance sales declined

Average Annual Expenditure on Frozen Foods per Consumer



Source: Bureau of Labor Statistics, Statista

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Consumer Shopping Shifts During a Recession

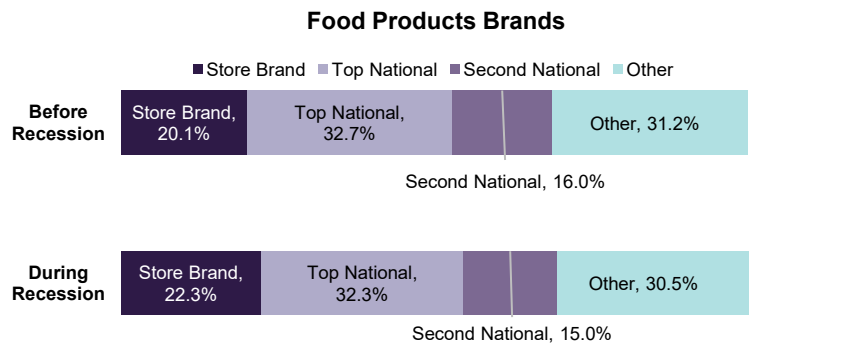
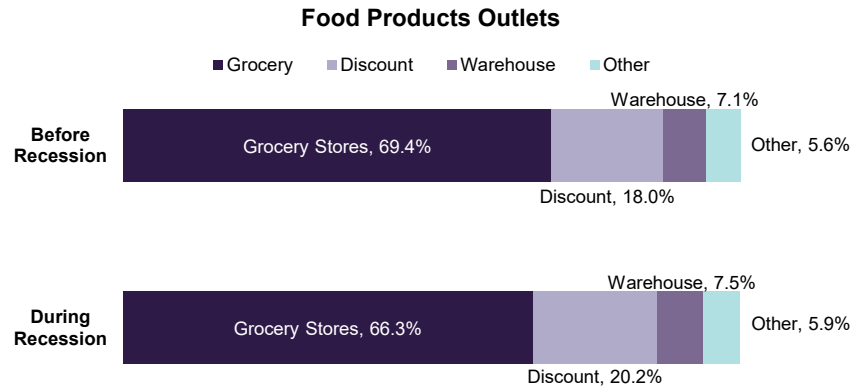
During the Great Recession, consumers changed where they shopped for food products:

- Before the recession, nearly 70% of people shopped at traditional grocery stores. However, grocery stores experienced a 3% decline in sales during the recession, with a substantial portion of this decrease being redirected toward discount and warehouse stores.
- During recessions, consumers tend to spend more time comparing prices and making multiple shopping stops to save on expenses.

Furthermore, recessions create a shift in consumer brand choices:

- Store brands or private label products typically see a 2% increase in sales, while top national brands experience a slight pullback of around 0.5%.
- The most significant declines occur for second-tier national brands (midsize companies valued between \$2-10 billion), which encountered a sales drop of approximately 1% during the Great Recession.

Expenditures on Food Products (Share of Total, in %)

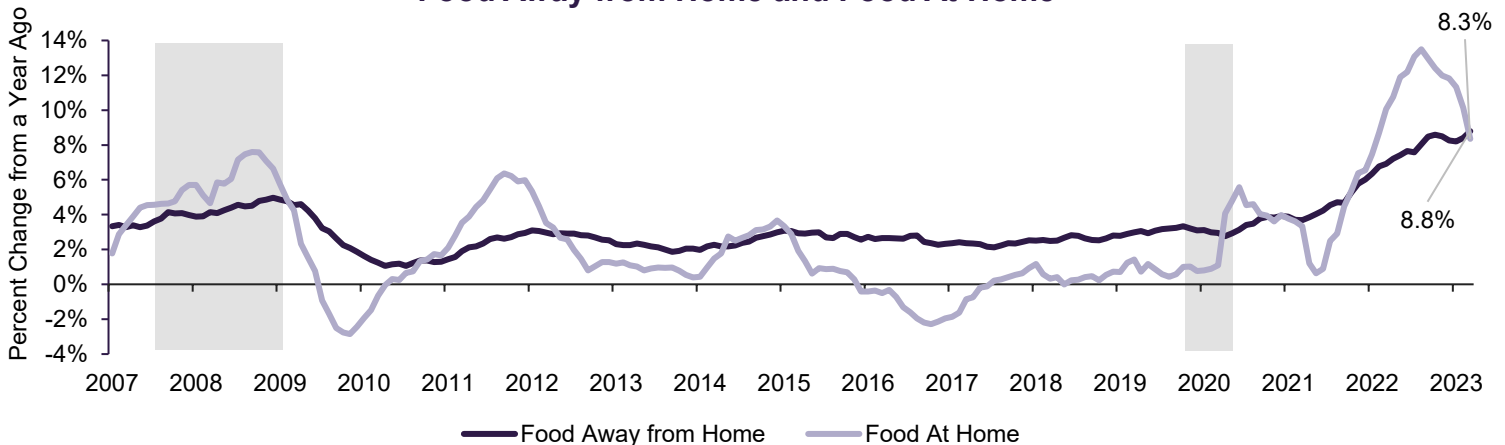


Source: Chicago Booth Review

Food Away from Home

Food away from home has experienced a significant shift with restaurant prices outpacing the cost of food at home for the first time since mid-2021. This poses a significant challenge for the restaurant industry, which previously stated that dining out was more economical compared to home-cooked meals. It's important to note that much of the increase in food away from home prices was driven by the expiration of free lunch programs implemented during the pandemic. On the grocery side, grocers have been pushing back against supplier price hikes and requesting reductions. With their considerable leverage due to industry consolidation, grocers have sought to maintain competitive pricing amidst economic difficulties.

Consumer Price Index Food Away from Home and Food At Home



— Food Away from Home — Food At Home

Shaded area indicates recession periods

Source: Federal Reserve Economic Data

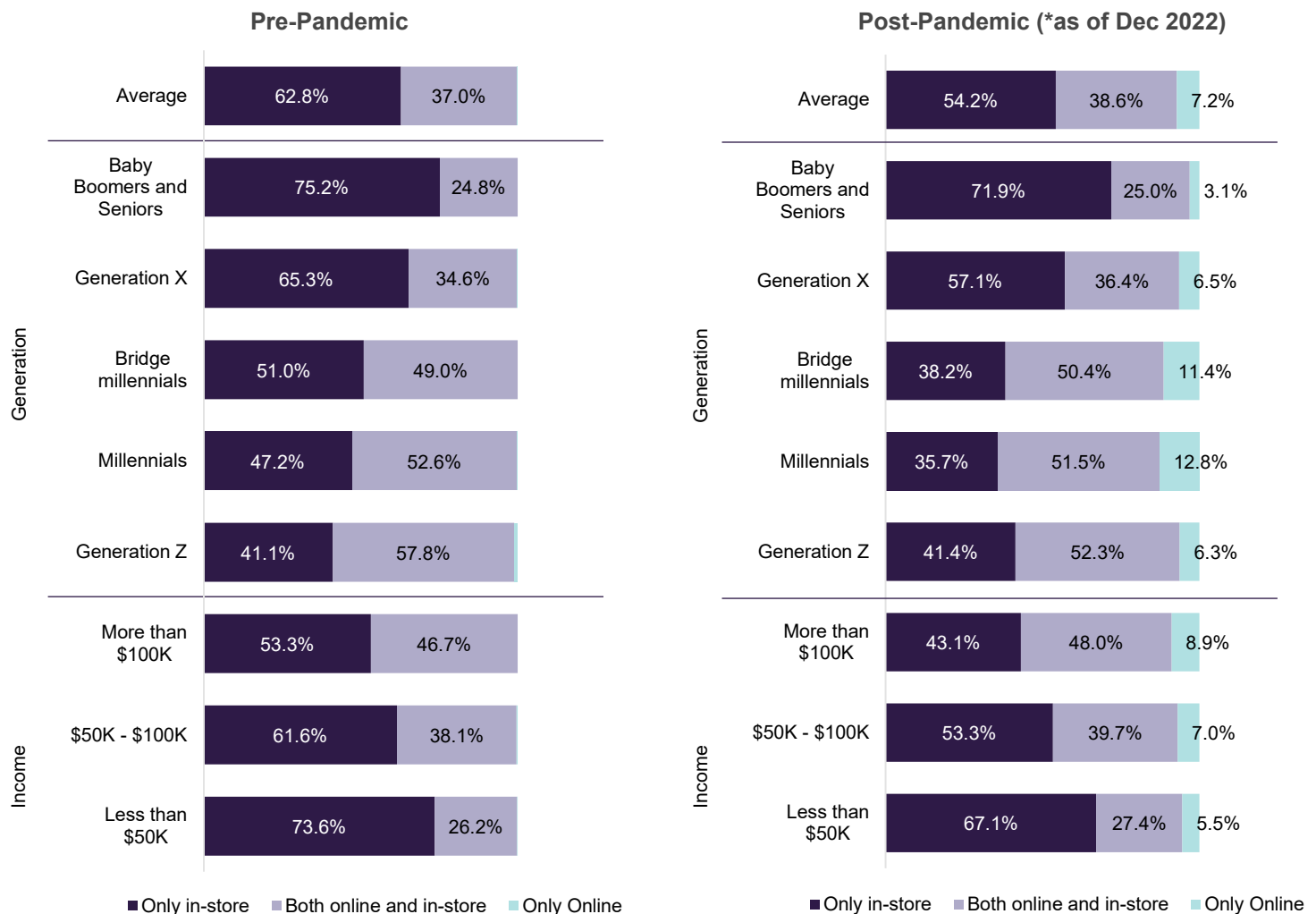


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Changes to Grocery Shopping Behaviors Post-Pandemic

- Pre-pandemic, approximately 63% of consumers exclusively shopped in-store, while 37% utilized a combination of in-store and online shopping. Post-pandemic, only 54% of consumers shop only in store and nearly 39% of people engage in a mix of in-store and online shopping. The most substantial change is seen in the group of consumers who now exclusively shop online, which increased from about 1% to over 7% of total consumers surveyed. This shift away from physical stores represents a remarkable transformation, highlighting a significant increase in online shopping habits.
- Analyzing the demographic breakdown, bridge millennials (aged 34-44) experienced the most significant shift, with a majority now engaging in both online and in-store shopping, and 11.4% adopting exclusive online shopping. A similar trend was observed among Millennials. Moreover, even 3% of Baby Boomers and Seniors have transitioned to exclusively shopping online, marking a significant behavioral shift for a demographic representing 23% of the US population. However, it is worth mentioning that Gen Z's shopping habits have changed the least, with online-only shopping being prevalent even before the pandemic.
- When comparing consumer shopping behaviors based on income classes, online-only shopping has become more prevalent across all income groups, with higher-income classes showing a more pronounced shift.

Share of Consumers Who Purchase Grocery Products In-store or Online by Demographic



Source: PYMNTS Feb 2023 Report

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Brand and Consumer Relationships

Understanding consumers and identifying target groups can create new opportunities for businesses and improve brand loyalty through more tailored product offerings and defined marketing strategies. Current trends with consumer groups include:

"I'm looking to buy products to help me reach my health goal faster and reinforce healthy habits."



"I will try to buy more products that are traceable, environmentally friendly, and ethical."



"I enjoy shopping at my favorite store and receiving quality service."



"I will use coupons, watch for sales, and not make impulse purchases to help achieve my financial goals."



- **Focus on healthy habits:** This group is comprised of individuals who prioritize health and are interested in organic products. According to a consumer behavior survey conducted by the Harvard Business Review, over 50% of respondents listed health-related goals as a top priority for 2023. A portion of these consumers may be categorized as fitness enthusiasts, who often consume organic, natural protein shakes.
- **Making a positive influence:** In addition to self-improvement, this consumer group also wants to make a positive impact in the world by seeking products with recyclable packaging and minimal environmental impact. They pay attention to labels indicating practices such as regenerative agriculture, cage-free products, and zero carbon footprint, and are likely to adopt eco-friendly and sustainable choices.
- **A customer centric experience:** Consumers in this group prioritize the customer service experience and enjoy interacting with high-tech solutions such as easy checkouts and QR codes that lead to great recipes. They are willing to spend more on their favorite brands compared to non-favorites.
- **Being price-conscious:** This group prioritizes finding the best deals and seeks companies that offer loyalty rebates, coupons, and transparent pricing. They are willing to shop around to save money and tend to buy in bulk for additional cost savings.



Sources: IRI, Statista, Chicago Booth Review, Retail Space Solutions, Choice Magazine, FRED, PYMNTS Feb 2023 Report, Harvard Business Review, Forbes