



FEATURE

## **Fresh vs. frozen**

The future of fresh in a changing competitive landscape

Barb Renner, Brian Baker, Justin Cook, and Jagadish Upadhyaya

## *Even amid fresh's success, frozen alternatives are making inroads with consumers.*

ASK A RANDOM person walking down the street to draw a picture of “food.” If they don’t just stare at you funny, nine times in 10 you’ll likely get handed a sketch of the iconic fruits, vegetables, steaks, chicken, or fish that industry professionals classify as “fresh food.” *Fresh equals food in the mind of the consumer.*

Fresh sales were up over 10% in 2020, reaching unexpected new highs.<sup>1</sup> The initial big question for 2021 was whether this increased demand could be sustained. Many were concerned that competition from the return of restaurants would cause retail food sales to plummet. Yes, sales are indeed off their highs, but sales in the first half of 2021 still significantly outpaced those of 2019. Fresh seems likely to leave this pandemic period better off in terms of revenue than before it started.<sup>2</sup> For the consumer, eating at home is sticking around and that’s great news for fresh.<sup>3</sup>

But another kind of competition is lurking just a few aisles over. The market for frozen food is less than half the size of fresh. Frozen is the David to fresh’s Goliath. However, frozen food sales were up 21% in 2020; basically double the growth of fresh food sales in that same period.<sup>4</sup> Within frozen, the closest equivalents to fresh food (namely, a combined group of frozen meat, poultry, seafood, fruit, and vegetables) grew even faster<sup>5</sup> and so far in 2021, frozen growth continues to outpace fresh.<sup>6</sup> In the food fight to capture growth in at-home consumption, frozen appears to have gained an advantage. Why? Will it continue?

This third annual edition of Deloitte’s Future of Fresh series dives into the competition offered by frozen. It describes how consumer behaviors and preferences, as well as the larger economic context, have shifted in favor of the challenger. It concludes

### **SURVEY METHODOLOGY**

- We interviewed 2,000 adults (aged 18 to 70) in the United States, who influenced fresh food purchases in their household.
- The interviews were conducted in July 2021.
- This sample was mapped to the US census to attain a representative view of the average US consumer.
- Results reflect a +/- 3% margin of error.

with suggestions on how food suppliers and retailers can lean into these changes.

## **The three P words**

Fresh versus frozen isn’t a true “fixed pie” or win/lose competition. Grocers generate sales no matter how the mix of fresh and frozen shifts and many fresh food suppliers, one way or another, sell their product as part of a frozen offering too. But the reason why consumer spending is shifting matters in terms of where new opportunities may lie and how food companies should invest. Analysis of data from our 2021 consumer survey reveals the top three reasons why frozen’s star may be rising among consumers: perishability, price, and preference.

### **PERISHABILITY**

Fresh food, by definition, is perishable. And consumers are not as tolerant of perishability now as they were before the pandemic. Shopping frequency is one factor. Consumers can’t stock up on fresh food and expect it to be edible weeks later, if that much time is going to pass between shopping trips. Last year’s [future of fresh report](#) showed a

50% drop in the most frequent shopper group from 2019 to 2020. While it has since made a partial recovery, the frequent fresh shopper group remains significantly smaller than it was before the pandemic (down 8 percentage points from 2019), whereas the group that shops the least frequently went 12 percentage points over 2019. It appears that new shopping habits are enduring even as consumers feel less stressed about shopping in stores (only 40% indicate shopping is more stressful vs. 54% in 2020).

## Consumers are not as tolerant of perishability now as they were before the pandemic.

Perishability also comes into play from consumers' heightened sensitivity to fresh spoilage and waste (figure 1). Whether real and caused by logistical

issues, like supply-chain breakdowns, or merely in the minds of consumers, this is a problem for fresh.

While it does happen, frozen spoilage doesn't occupy the consumer's imagination like fresh's overripe avocados or funky fish. In fact, consumers' ability to stock up on frozen between less frequent shopping trips—without creating spoilage and waste—is a major feature. Three in four consumers in our survey said storing frozen food is convenient. Their capacity to store frozen food grew through the pandemic, with 30% of consumers expanding their freezer capacity.<sup>7</sup> On the whole, consumers are now more invested in frozen.

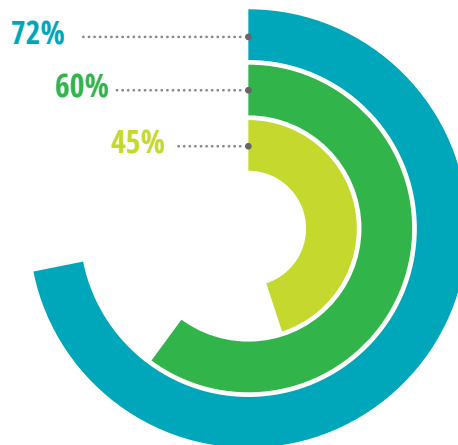
The food itself isn't the only kind of waste tied to perishability. There can also be waste from packaging. Six in 10 consumers prefer their fresh food to be in packaging even though it is arguably not needed in many cases. Why might this be? A similar six in 10 believe fresh food that is in

FIGURE 1

### From store to home: Perceptions of US consumers on food waste

(Percentage that agree with the following statements)

- I typically think about food waste and how much I throw away when making a purchase decision
- Fresh food's shelf life (time between buying and spoiling) has decreased recently
- More of the fresh food in my home is going to waste than it did in the past



Source: Based on Deloitte's 2021 Future of Fresh survey of US consumers.



packaging will stay fresh longer than fresh food without packaging. Keeping the food from going to waste seems more important than waste caused by packaging, a case of perishability trumping sustainability. Frozen food almost universally comes packaged but, based on these results, that doesn't appear to factor against it much.

## PRICE

Price is still king—nine in 10 consumers report that price is *again the most important* purchase driver for fresh. And price may be on consumers' minds more than normal. Through the first three-quarters of 2021, the United States experienced inflation in food prices that is expected to continue in the near term.<sup>8</sup>

In a period of rising prices, frozen may have yet another advantage over fresh. Fresh food can be significantly more expensive at baseline than its frozen equivalent.<sup>9</sup> This difference is reflected in

**Of those who think prices are up, a whopping 82% think they went up more than was justified.**

consumer perception—62% of respondents said fresh food costs more than frozen alternatives. The percentage of consumers who say the price of fresh increased recently is also higher now than in 2020 (65% vs. 57%). Of those who think prices are up, a whopping 82% think they went up more than was justified. In contrast, almost half of the consumers think the price of frozen food hasn't gone up at all. Finally, consumers do not like uncertainty when it comes to prices. Unfortunately, six in 10 consumers perceive the price of fresh food as more unstable than the price of frozen.



## PREFERENCE

Today's frozen food isn't your grandparent's frozen food. It is better quality, with more variety and premium options.<sup>10</sup> Frozen food is now as likely to emphasize its health and nutritional attributes as its taste or convenience. Half of the consumers in this study say preparing frozen food is easier than preparing fresh, but slightly more than half said they recognize freezing's ability to preserve vitamins and nutrients in food.

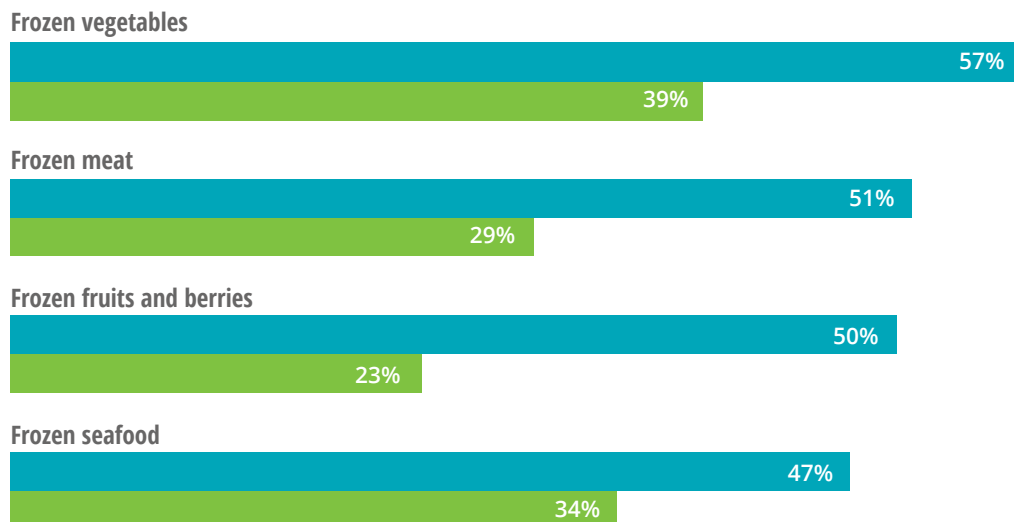
An overall positive image of frozen is reflected in consumer-stated preference data. In head-to-head comparisons, 40–50% of consumers say frozen is just as good or better than fresh. This preference is most pronounced among younger consumers, the same ones who would have grown up and started shopping on their own during a period of better frozen options and less stigma (figure 2). Such a demographic difference may indicate a longer-term shift is underway, as these younger customers grow their families, economic standing, and purchasing power in the coming years.

FIGURE 2

### Younger consumers take frozen into the future

(Percentage agreeing frozen is just as good or better than fresh)

■ 18 to 34 ■ 55+



Source: Based on Deloitte's 2021 Future of Fresh survey of US consumers.

A FOURTH P: PLANT-BASED ALTERNATIVES

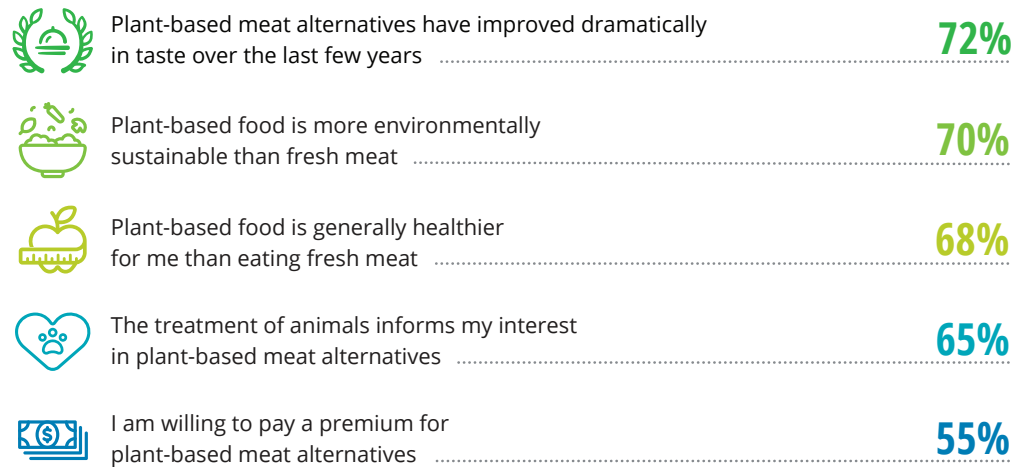
At approximately US\$7 billion, it doesn't stack up in market size to either fresh or frozen. But there is perhaps no hotter up-and-coming challenger to the traditional offerings of both than plant-based alternatives (PBAs). Sold in both the fresh perimeter and frozen sections, the sales growth rate of PBAs in 2020 was higher than that of fresh or frozen.<sup>11</sup> Half of the consumers in our study have purchased a PBA and overall consumer interest in PBAs has increased over last year's survey results (up 6 percentage points).

Consumers like the perceived environmental, health, and animal welfare benefits of PBAs but taste may be the most important driver. Almost three in four of those who have tried PBAs think the taste has dramatically improved in recent years. Even 25% of the unacquainted (of the half of consumers who haven't tried them) have the impression that PBA taste has improved. Among consumers who have tried it, PBA meat and milk just as good as or better than traditional (59% and 65%, respectively). PBA cheese and PBA seafood are felt to be equivalent to or better than fresh by about half of these consumers (54% and 51%, respectively).

FIGURE 3

Perspectives of consumers who have tried PBAs

(Percentage that agree with the statement)



Source: Based on Deloitte's 2021 Future of Fresh survey of US consumers.

So far, fresh is keeping its edge in at least one critical area—willingness to pay a premium. Overall, 70% of consumers will pay a premium for fresh food but only 32% would do so for a PBA. The higher 55% willingness among those who have actually tried it still pales in comparison to fresh.

## Who likes fresh? Revisiting contemporary and conventional consumers

By this point one could assume the world had tilted entirely away from fresh. While the forces supercharging frozen are real, that change is only at the margins and it is important to stay grounded with all that fresh brings to the table. It still occupies a much larger market share than frozen, and it generally is what gets consumers excited and in through the door. As they have year after year, 90% of consumers say eating fresh food makes them happy whereas (a new question this year) only 40% say the same about frozen. Eating fresh is an identity and lifestyle that doesn't appear to translate to or have the same cachet in frozen.

Revisiting our fresh consumer profiles from the 2020 study helps reveal the ongoing importance and future of fresh. A renewed statistical analysis was conducted based on consumer responses relative to shopping frequency, amount of fresh food purchased, perception on price, channel usage, stress while shopping, and experience with stock-outs. This exercise confirmed the continued presence of two distinct fresh consumer profiles, namely contemporary and conventional.

### Contemporary consumers

- Forty-eight percent of the survey group (up from 40% in 2020)
- Still tend to be younger families, more well-off, and urban dwellers

### Conventional consumers

- Fifty-two percent of the survey group (down from 60% in 2020)

- Still tend to be older, lower-income, and more rural

Contemporary consumers—the group that grew—value fresh food the most and their love for it seems even stronger now. Sixty percent say they recently increased their purchases of fresh food, which is up 10 percentage points from the last study. Almost eight in 10 are now willing to pay a premium for fresh food. Seven in 10 value the fresh brand, up from only six in 10 a year prior. In this unique category, brand of course extends beyond logos to the channel and experience of fresh.

Still by far the most omnichannel of shoppers, contemporary consumers this year got a somewhat higher share of their fresh food from grocery stores (up 9 percentage points over last year). This could be an indication that fresh departments are making progress with enticing this fresh-loving consumer group back to stores.

As companies grapple with their technology and innovation investment decisions, they should know that contemporary consumers are still the biggest users of online shopping for fresh food. Two-thirds (68%) bought at least some fresh food online versus only 10% of conventional consumers—both figures essentially unchanged from last year. They are also even more likely now to be interested in other innovations like subscription services (64%, up from 59% in 2020) and low- and no-prep fresh meal solutions (78%, up from 71% in 2020).

Safety was a new purchase driver in the 2020 study, tied in importance to price. Contemporary consumer concern for safety hasn't changed since. It remained the top driver in 2021, with nine in 10 consumers saying that protecting their own personal health and safety as well as that of others while shopping was still important to them. A similar nine in 10 again said they want fresh food with packaging that prevents contamination.

In the 2020 edition, contemporary consumers were shown to be open to trying alternatives to fresh when confronting stock-outs, including switching to frozen food. And when they tried it as an out-of-stock substitute, they often liked it.

## Contemporary consumers may value fresh more than their conventional peers, but they also are more open to frozen.

Contemporary consumers may value fresh more than their conventional peers, but they also are more open to frozen. In new questions this year, contemporary consumers said frozen was just as good as or better than fresh, with scores that were at a minimum of 18 percentage points higher than those of conventional consumers. This spans frozen vegetables, meat, seafood, and fruit and berries. Half of contemporary consumers even said frozen food was good for weight loss, compared with only 17% of conventional. In short, the fresh-loving contemporary consumer is subject to being converted to a frozen buyer too.

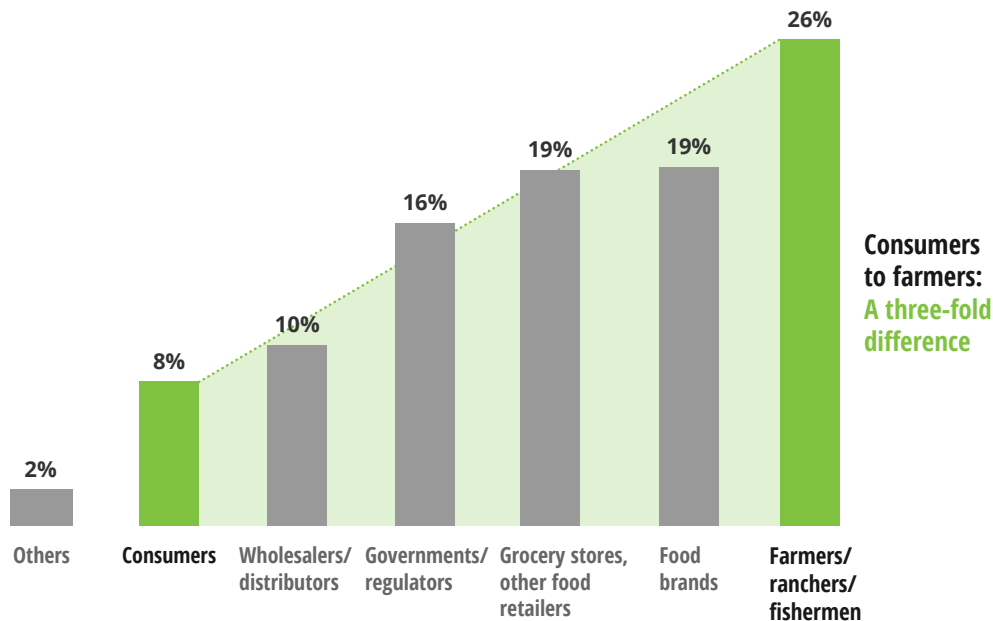




## SUSTAINABILITY

FIGURE 4

## Perceptions of US consumers on who is most responsible for food system sustainability



Source: Based on Deloitte's 2021 Future of Fresh survey of US consumers.

There is a dedicated group of consumers willing to seek out and even pay a premium for sustainable products. However, the overall importance of sustainability as a purchase driver—for fresh food specifically—dropped two years in a row and has declined 10 percentage points since 2019. “Locally grown” food, which is less transportation-intensive and may be perceived as more sustainable, has declined even further as an important reason for purchase. Additionally, packaging waste associated with e-commerce delivery may be in the news, but only 36% of consumers feel the fresh food delivered to their homes has too much packaging.

Most consumers still value sustainability, but their priorities seem to be changing. It could be the pandemic and it could be temporary. Regardless, there is reason to believe consumers do not fully recognize their own agency in making food more sustainable relative to other participants in the food system.

Consumers say farmers/ranchers/fisherman bear the most responsibility for making the food system more environmentally sustainable. This is despite (or perhaps because of) the limited interaction end consumers have with food producers. Respondents selected consumers as a group the least, failing to see how their own collective purchasing power could shift incentives and outcomes more than actions by other participants in the food system.

## Rising to the challenge

While fresh is beloved and will likely continue occupy a larger share of the consumer's plate, the challenge from frozen is undeniable. The perishable nature of fresh food is now harder for many consumers to integrate into their lives. Though many foods at home continue to do well, perishability, along with rising prices and changed preferences, tilts the playing field toward the attributes of frozen. Suppliers and retailers should take the opportunity to reevaluate their strategies in these segments.

### FOOD PRODUCERS/SUPPLIERS SHOULD CONSIDER

- **Strengthening the fresh food supply chain:** With real and perceived perishability problems gaining importance among consumers, fresh food producers/suppliers should focus on transforming their supply chains to become more efficient. This can help ensure that food travels faster through the supply chain and arrives at retail outlets without losing its freshness.
- **Diversifying the food portfolio:** As most frozen food starts as fresh, food producers/suppliers can explore the option of bringing more frozen products to the market. Evaluate building a branded presence in frozen or enhancing it where it already exists. Suppliers should leverage analytics to maximize products harvested and protein processed as well gain the agility to divert food to specific consumer offerings expected to be in highest demand, be it fresh or frozen.
- **Growing their online presence:** Online is fast emerging as a preferred mode of shopping

for food especially among contemporary consumers. Food producers/suppliers that do not focus enough on developing and serving this channel might risk losing out on a growing consumer base. This can include direct-to-consumer (DTC) and subscription-box services.

### FOOD RETAILERS SHOULD CONSIDER

- **Reenergizing the fresh foods section:** Fresh foods drive foot traffic in grocery stores. The fresh perimeter can consider deploying more exciting visuals, cooking bars, demonstrations, and tasting sections. Retailers can also lean into options like fresh salad bars, fresh meal solutions, and recipe-based ingredient displays.
- **Reimagining the frozen section:** Why can't frozen be fun too? Consumers may respond to frozen with even more enthusiasm if commensurate efforts were put into building energy around frozen. Appeal to the senses like with fresh. Additionally, while the investment would be significant, new freezer options that do away with the glass doors, use technology in interesting ways, and put food out in chests where consumers can see and grab it easily might help. Investing in private-label frozen products can be another option worth exploring.
- **Strengthening the online presence for fresh:** Contemporary consumers have already embraced the idea of an in-store shopper picking up best quality fresh food items. Work to keep fresh prominently included in search results and virtual shelves even as retail media ad dollars flow in, obscuring visibility with brand-supported alternatives.

## Endnotes

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