



Capitalizing on the shifting consumer food value equation



Executive summary

The Food and Beverage industry continues to struggle with stagnant overall growth. From 2012 to 2014, US food and beverage retail spending annual growth of 2.6% has roughly mirrored the annual inflation plus population growth of 2.3%.^{†‡} Though the overall spend has been flat, there has been a shift in where consumers are spending. For example, from 2009 to 2013, the 25 biggest U.S. food and beverage manufacturers averaged only 1.0 percent annual growth, while smaller brands and private brand manufacturers grew more rapidly (4.9 percent and 4.0 percent, respectively).¹ The challenge becomes finding ways to grow by connecting with shifts in consumer purchase decisions and evolving shopping behavior.

Consumer-led disruptions are compounding the challenges of stagnant growth. According to interviews with retail and manufacturing executives, consumers have an unprecedented ability to access information about products and share this information via social media, making it more challenging than ever for companies to manage messaging. In addition, many consumers have signaled a distrust of the established food industry in spite of retailers' and manufacturers' traditional efforts to keep consumers positively engaged with their brands.² These consumer-led disruptions represent an opportunity, even an imperative, for manufacturers and retailers to reset and reposition themselves with consumers and shoppers.

Historically, consumers have made decisions based on taste, price, and convenience— what we refer to as “Traditional drivers.” While consumers have always considered factors beyond these three traditional drivers, only a small set of consumers actually made purchase decisions based on other factors.

However, things are changing.

Consumers have begun to weigh a new set of factors more heavily in their purchase, disrupting the consumer value equation in ways that present both opportunities and challenges for the food industry. To help retailers and manufacturers better understand the drivers and implications of these shifts, Deloitte Consulting LLP conducted a study in collaboration with the Food Marketing Institute (FMI) and the Grocery Manufacturers Association (GMA) and authored the report, *Capitalizing on the shifting consumer food value equation*. Our research included:

- A survey of 5,000 consumers nationwide
- Interviews with executives from over 40 companies across retailers, food & beverage manufacturers, ingredient suppliers, and agricultural producers
- FMI, GMA, and Deloitte secondary research

Though actual food and beverage transactions were not measured in accordance with this research, multiple studies demonstrate that customers' stated intent for purchase decisions frequently leads to subsequent behavior.³ This has allowed Deloitte and its collaborators on this study to offer an advanced view of current and upcoming market and consumer behavior changes, anticipated as a result of this research on purchase intent.

What we found

The Traditional drivers of the consumer value equation remain intact, but the number of consumers who consider a series of Evolving drivers as a significant part of the purchase decision has grown substantially. This no longer reflects a “niche” portion of the market.

These evolving value drivers include:

- Health & Wellness
- Safety
- Social impact
- Experience
- Transparency (an overarching driver)

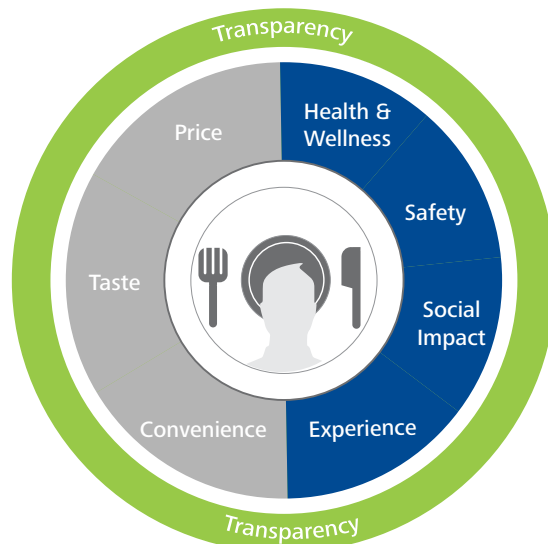
Evolving drivers: A pervasive shift

From our findings, it is clear that the Evolving value drivers as a group have become meaningful for a sizeable number of consumers surveyed; roughly half say their purchase decisions are significantly influenced by these Evolving drivers.

This does not mean the Traditional drivers are no longer important. Traditional value drivers continue to be among the most important drivers of behavior, and likely will be for the foreseeable future. Rather, the Evolving drivers in the consumer value equation join the Traditional drivers as part of the full plate of influence when considering the drivers of consumer purchase decisions and take a greater share than in the past.

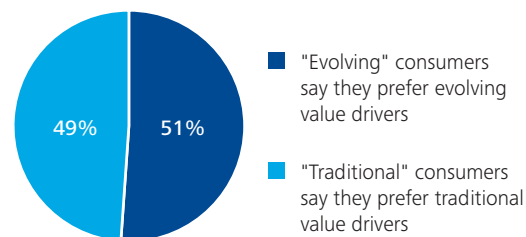
It’s important to know that the shift towards Evolving drivers and a broader purchase consideration set is not driven by certain region, age or income groups. It is pervasive across region, age and income. This means that each and every consumer targeted by food manufacturers and retailers has changed in a fundamental and impactful way.

Figure 1: The consumer value driver plate



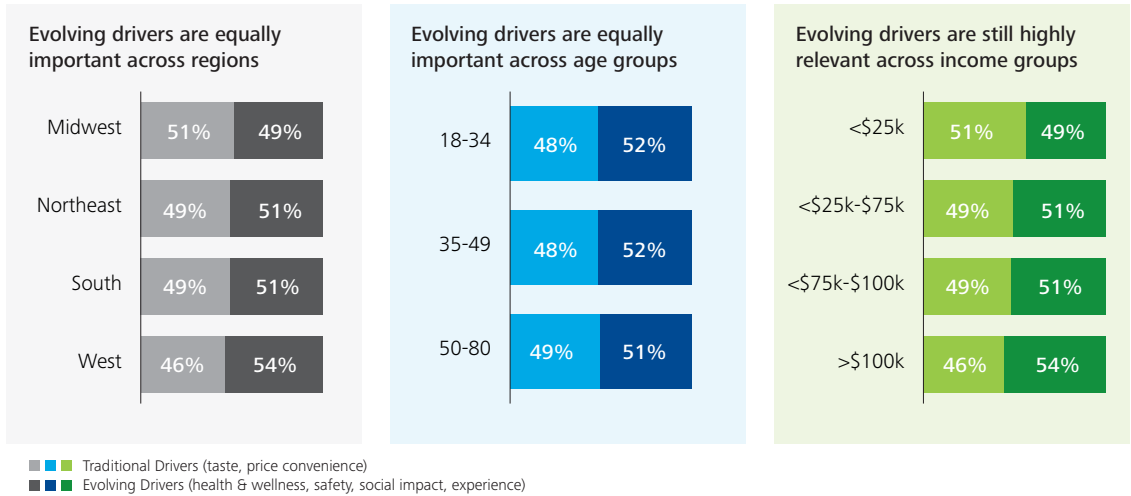
Source: Deloitte Food Value Equation Survey 2015, Deloitte Analysis

Figure 2: About half of consumers surveyed indicated they weigh Evolving value drivers more heavily than Traditional ones



Source: Deloitte Food Value Equation Survey 2015, Deloitte Analysis

Figure 3: Demographics of traditional vs. evolving drivers



Source: Deloitte food value equation survey 2015, Deloitte analysis

To make matters more complex for retailers and manufacturers, consumers who place more value on the Evolving drivers in their purchase decisions appear more likely to use social media, mobile applications, and digital sources to acquire information about products or brands on the path to purchase. They are also more prone to distrust the food industry in general.⁴



Evolving drivers: Breaking it down

When considered individually, each evolving driver has a distinct and varied impact on consumer purchase decisions.

Figure 4: Evolving drivers individually

Evolving drivers of the consumer value equation			
Driver	What consumers include:	Key consumer insight:	Key industry opportunity:
Health & Wellness	The definition of Health & Wellness varies and includes attributes ranging from nutritional content to organic production to all-natural ingredients to fewer artificial ingredients.	Health & Wellness is the most important and complex of the evolving drivers. Consumers' considerations are broad and tend to vary at the category level.	Companies must decode and dissect the nuances of consumer preferences around Health & Wellness, and then act quickly to respond.
Safety	Safety applies to both product attributes such as absence of allergens and fewer ingredients, and company attributes like detailed accurate labeling.	Safety is considered both in the short-term (e.g., toxin free) as well as long-term (e.g., no carcinogens) and, as a result, has interplay with Health & Wellness.	Companies should broaden their definition of "safety" to manage and satisfy an expanded set of consumer expectations.
Social impact	Social impact encompasses company attributes such as local sourcing, sustainability, animal welfare, and fair treatment of employees.	The number of consumers reporting strong Social Impact preferences is small, but represents a loud and vocal group that can sway public opinion.	Companies must identify which issues have most opportunity or represent the greatest risk, and when to lead vs. follow.
Experience	Experience includes retail store layout and services, channel innovation, brand interaction, and personalized engagement spanning pre, during, and post-purchase.	As consumer expectations increase, experience beyond the actual product or service can elevate satisfaction, trust and loyalty.	Manufacturers must authentically engage with consumers, both directly and in partnership with retailers.
Transparency (an overarching driver)	Transparency requires product attributes such as clear labeling, certification by trusted third parties, and company attributes like access and trust.	Consumers want access to many types of product/brand information and want to access it across mediums (e.g., website, in-store, apps, etc.) in real time.	Companies should gather and provide access to all relevant information, and be prepared for two-way engagement to promote trust.



What does this mean for the food industry?

With rapidly shifting consumer value drivers, manufacturers and retailers should determine where they reside in the new consumer value equation. With an increasing number of consumers redefining their “new normal”, market dynamics will likely continue to change with broad implications creating both new challenges and new opportunities.

Potential implications

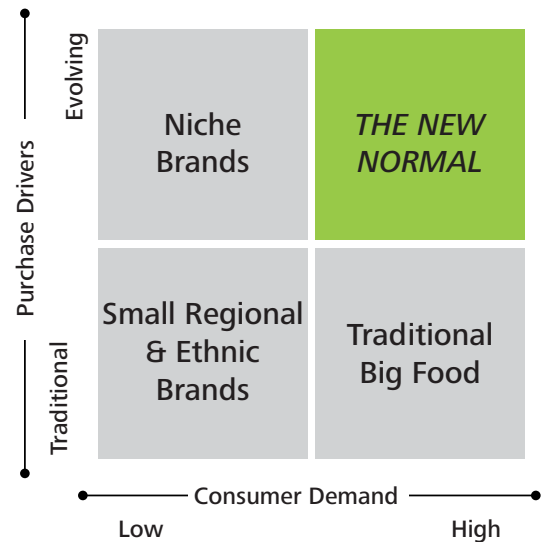
- Consumer purchase decisions will be based on mixture of both Traditional and Evolving drivers
- Consumer tastes and preferences will continue to fragment
- Retailers’ role influencing consumer purchase decisions is increasing
- Smaller, newer companies will leverage new technologies, third party relationships, and improved engagement to earn consumer trust and to compete
- Larger competitors will adjust to fulfill new, unique value propositions
- Market success will be determined by building purpose-driven competitive advantages

Many successful companies will ask themselves the following questions when addressing the emerging market realities created by the evolving consumer value equation and consumer-driven market disruptions:

1. How will our company be impacted by the “new normal”? How can we reframe and revisit current strategies to assure alignment with the “new normal”, if needed?
2. How should we adapt products and services in the portfolio to address these Evolving drivers? How can we adopt a “product plus” mindset?
3. How can we engage consumers in a genuine and two-way dialogue to build trust and assure alignment with consumer priorities, even as they evolve?
4. Can we enable new or evolved priorities through a revised business model, keeping an eye toward speed, flexibility, and transparency in offerings and experiences?

It’s clear that market leadership is being redefined by consumers, particularly those with an evolving value equation, driven by emerging factors such as Health & Wellness, Safety, Social Impact, Experience and Transparency. Nevertheless, informed, innovative, and forward-thinking retailers and manufacturers will likely prove the best prepared to adapt to this “new normal” and can have the greatest opportunity to capitalize on the emerging market challenges, even as consumer purchase behavior continues to change.

Figure 5: The new normal



The new market environment

The food and beverage industry faces new challenges—and may find new opportunities—in the face of slow overall growth as consumers place growing emphasis on evolving value drivers.

The biggest food and beverage industry retailers and manufacturers are struggling to grow.

Food retailers, manufacturers, suppliers and others in the value chain face a challenging period as growth lags and consumers' food preferences continue to evolve. Overall food and beverage retail sales (\$, not adjusted for inflation) grew by 2.6 percent annually between 2012 and 2014, roughly mirroring inflation plus population growth (2.3 percent).^{†‡} Furthermore, growth has been realized disproportionately by smaller players. From 2009 to 2013 the 25 biggest manufacturers achieved 1.0 percent annual growth, compared with 4.9 percent and 4.0 percent for smaller brands and private brand manufacturers, respectively. The implication is that the top 25 branded food manufacturers lost 3.5 percent market share during that four-year span.⁵

Consumers are in the drivers' seat.

Empowered by the democratization of information, and the influence and reach of new media, many consumers are taking control of the conversation about food and beverages. This is a departure from when manufacturers could significantly influence consumer preferences through mass marketing—instead, consumers are increasingly relying on social networks, self-proclaimed experts, and web-based media as their sources of information.^{6,7}

Consumer trust in the food and beverage industry is creating a growing concern, particularly for large manufacturers.

Consumer trust can be a difficult thing to define or quantify. However, Deloitte's 2014 Social Media Survey found that consumers are 3.4 times more likely to harbor negative sentiment about food companies than a cross-industry average.⁸

The tendency toward distrust appears particularly true of Millennials. According to a recent Mintel report, two in five U.S. Millennials (43 percent) agree they do not trust large food manufacturers compared to just 18 percent of non-Millennials.⁹ Concerns with trust were overwhelmingly reflected during our interviews with Food and Beverage industry executives who say the issue of trust represents a growing challenge.

Today's market environment presents challenges to retailers and manufacturers alike, as they attempt to meet consumers' needs and grow sales accordingly.

The shifting consumer value drivers

Today, consumers are actively shaping and expanding the number of drivers they incorporate into their food purchasing decisions, often rapidly and in unpredictable ways. Consider the Consumer Value Driver Plate below (Figure 6), which illustrates the key drivers of purchase within today's Consumer Food Value Equation and serves as a framework to evaluate where and how consumers make tradeoffs across the sometimes competing factors.

Evolving value drivers such as Health & Wellness, Safety, Social Impact, Experience, and Transparency have always been present in the minds of consumers, but historically presented themselves as consumers make purchase decisions in specialty, niche products and retail channels, with limited impact on purchase behavior for the vast majority of consumers.

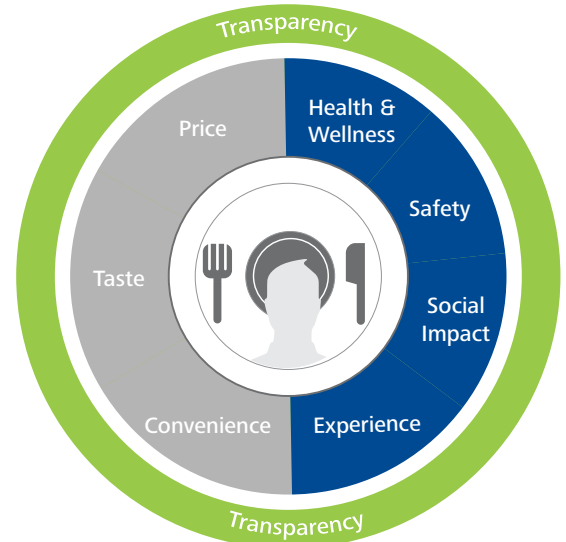
Today, however, these factors are evolving in meaning and becoming increasingly important drivers of behavior for a large and diverse group of consumers. Traditional value drivers continue to be among the most important drivers of behavior, and likely will be for the foreseeable future.

Now, increasing numbers of consumers are making purchase decisions based on the full plate—Traditional and Evolving value drivers combined—a shift which is fundamentally disrupting the value equation for retailers and manufacturers.

The Deloitte research shows that about half of consumers surveyed now say they weigh Evolving value drivers more heavily in purchase decisions than they do the Traditional value drivers. This represents a meaningful and scalable opportunity for industry.^a

Deloitte's 2015 Consumer Food Value Equation Survey revealed two broad groups of consumers: those who say they weigh the Traditional value drivers of Taste, Price, and Convenience more heavily in purchase decisions than they do the Evolving value drivers, and those who say they place greater weight on the Evolving value drivers.

Figure 6: The consumer value driver plate



Source: Deloitte food value equation survey 2015, Deloitte analysis

Value drivers such as Health & Wellness, safety, social impact, experience, and transparency have always been present in the minds of consumers

^a All survey analysis based on weighted sample; see "Appendix: Methodology & Objectives" for more detail

...these factors are evolving in meaning and becoming increasingly important drivers of behavior.

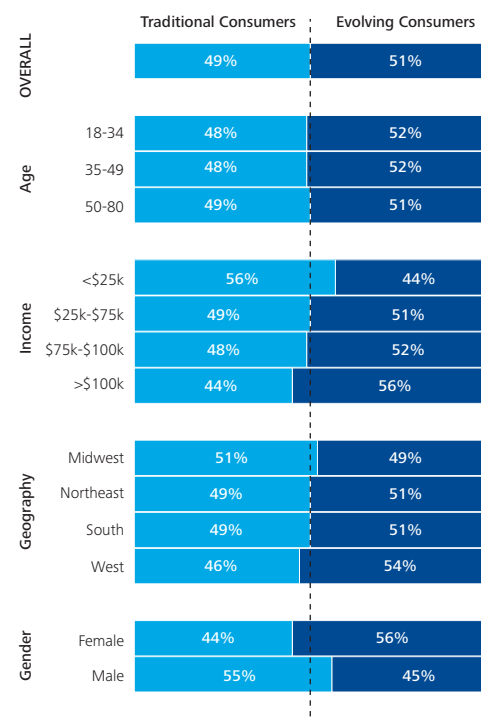
This is strong evidence that Evolving value drivers have expanded beyond a niche market and that Evolving consumers, who have significant buying power, represent a meaningful and scalable opportunity for the industry (considering that in 2014, U.S. supermarket spend was \$638 billion).¹⁰

Preferences for Evolving value drivers extend far beyond Millennials and higher-earning consumers, contrary to commonly held perceptions.

What does the typical Evolving consumer look like? Many executives we interviewed hypothesized that Millennials and wealthy consumers were predominantly, or solely, those who cared about the Evolving value drivers.

While those consumers are, in fact, more likely to consider a greater number of Evolving value drivers (i.e., state that more Evolving value drivers are important to them^b), we see little to no difference between key geo-demographic characteristics and a consumers' share of preference (i.e., how strongly a consumer feels about a particular value driver, relative to others) (Figure 7).

Figure 7: Age, income, geography, and gender are not significant drivers of difference in share of preference

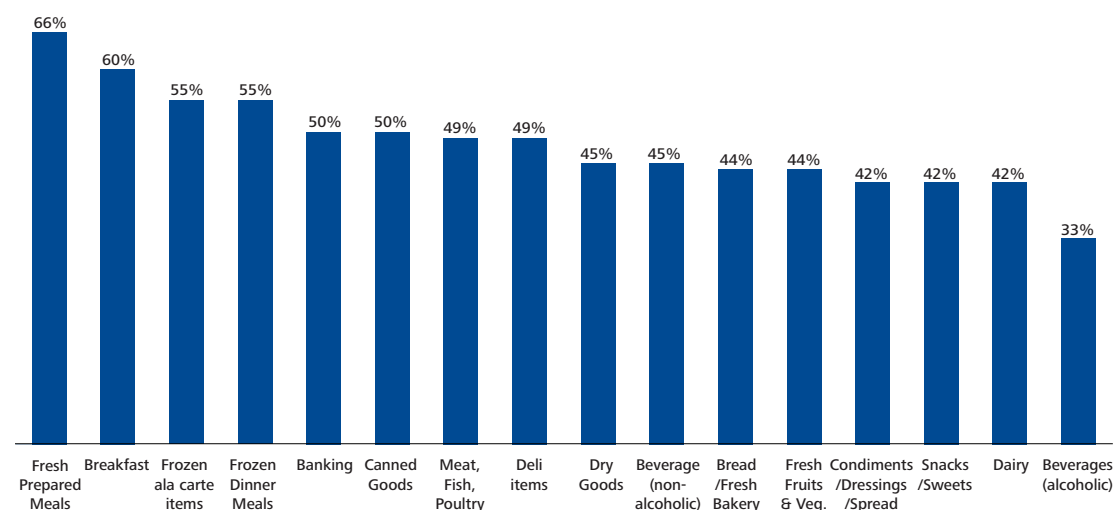


^b Consumers aged 18-34 were more slightly likely than were older consumers to consider every Evolving attribute tested when buying a recent product. Similarly, consumers with annual household income greater than \$75,000 were more likely than were lower-earning consumers to consider these Evolving attributes. Nevertheless, demographics did not significantly drive share of preference.

All product categories appear impacted

Consideration of Evolving drivers is widespread across product categories. Freshly prepared meals appears to be the product category where consumers' purchase decisions are most guided by Evolving value drivers with 66% reporting their purchase decisions are influenced by such drivers. Alcoholic beverages appear the least influenced. (Figure 8).

Figure 8: Evolving driver consideration in purchase by category (% of consumers)



Note: Consideration of emerging value driver determined by whether respondent selected an emerging value driver (all listed choices except for "other" and "I didn't consider any of the above") Q: Did you consider any of the following when you purchased the product? (n=5001)

Source: Deloitte Food Value Equation Survey 2015, Deloitte Analysis

The impact of Evolving drivers across product categories is significant and demonstrates that the shift toward Evolving drivers is more about consumer thinking and less about evolutions within specific product groups. Retailers and manufacturers may feel the impact of this growing shift in consumer values whether they focus on one product category or several.

Preference toward Evolving drivers is highly correlated to two other market disruptors.

Social media and digital channel use have democratized information in such a way to empower consumers and disrupt the historical reliance of manufacturers and retailers on traditional communications and marketing. While consumers don't always get accurate information through these channels, one thing is certain—the influence of these channels is strong.

Our analysis reveals how consumers who indicate active use or reliance on social media, mobile apps, and digital channels have a higher preference for Evolving drivers in their purchase decisions than those less reliant on those channels (Figures 9 and 10).

Figure 9: Do you actively look for information on food/ beverage topics in the media (incl. news, websites, blogs, and social media)?

	Traditional driver preference	Evolving driver preference
Yes	16%	32%
No	84%	68%

Source: Deloitte Consumer Food Value Equation Survey, 2015

Figure 10: Have you ever posted or written about food and/ or beverage topics on social media, online review sites (e.g., Yelp), and/or blogs?

	Traditional driver preference	Evolving driver preference
Yes	11%	17%
No	89%	83%

As retailers and manufacturers continue their work to earn and sustain consumer trust, it's important to note the differences among consumers in how a preference for Evolving drivers is correlated to that trust. Our findings show that consumers who exhibit a high lack of trust in large, national food and beverage brands also have a higher preference for Evolving drivers when making purchase decisions (Figure 11).

Figure 11: Consumers who favor evolving drivers express less trust in large, national food & beverage brands (scale of 1 to 5; larger number = less trust)

How much do you trust large, national food or beverage brands to provide food and beverages that...	Traditional drivers	Evolving drivers	% difference
Are safe in the short-term	2.16	2.41	11%
Are safe in the long-term	2.49	2.82	13%
Are clear about what's in the product, and how and where it was made	2.55	2.79	9%
Provide value for money spent	2.58	2.77	7%
Are nutritious	2.67	2.86	7%
Contribute to Health and Wellness	2.81	3.01	7%
Are produced in a socially and/or environmentally responsible way	2.83	3.06	8%

Note: Q40 How much do you trust large, national food or beverage brands to provide food and beverages that (are)...? (n=5001) (Average values shown, where: No trust = 5, Very little trust = 4, Some trust = 3, Good deal of trust = 2, Full trust = 1) Source: Deloitte Consumer Food Value Equation Survey, 2015, Weighted Respondent Dataset

The challenge is clear for retailers and manufacturers that wish to court consumers whose purchase decisions favor Evolving value drivers. Such consumers have both a propensity toward social media, mobile, and digital channels and express higher levels of distrust. To win the business and trust of such consumers, retailers and manufacturers will need to better understand the Evolving value drivers and integrate this understanding into an overall strategy.

Section summary:

- The drivers of consumer value appear to have fundamentally changed, with far reaching implications for the food and beverage industry.
 - Traditional drivers alone (Taste, Price, and Convenience) no longer represent the dominant influence of consumer purchase decisions
 - Roughly half of consumers now weigh Evolving drivers (Health & Wellness, Safety, Social Impact, Experience, and Transparency) with at least equal importance.
 - As a result, it appears a notable portion of consumer purchase decisions are being driven by some combination of all drivers (Traditional and Evolving)
- Impact is not particularly influenced by demographic considerations such as Age, Income, Geography, or Gender and is pervasive across product categories.
- Consumers with high reliance or use of social media as well as those with higher levels of manufacturer and retailer distrust display a higher preference for Evolving drivers when making purchase decisions.

Understanding the evolving value drivers

Given the shifting nature of the Consumer Food Value Drivers described above, purchase decisions are increasingly based on “product plus” factors, such as specific ingredients, how the product was made, where it was made, what corporate values the manufacturer and retailer exemplify, and so on. Consumer demands span multiple value drivers even as consumers are expanding the attributes considered within a given value driver, blurring historical definitions across each one. As these value drivers are expansive and nuanced, a “one size fits all” approach to meeting consumer needs will not be effective.

In the remainder of this section, we explore in more detail the meaning of each of the five Evolving value drivers, as well as each one’s implications for food and beverage companies.

Figure 12: Evolving drivers individually

Evolving drivers of the consumer value equation			
Driver	What consumers include:	Key consumer insight:	Key industry opportunity:
Health & Wellness	The definition of Health & Wellness varies and includes attributes ranging from nutritional content to organic production to all-natural ingredients to fewer artificial ingredients.	Health & Wellness is the most important and complex of the evolving drivers. Consumers’ considerations are broad and tend to vary at the category level.	Companies must decode and dissect the nuances of consumer preferences around Health & Wellness, and then act quickly to respond.
Safety	Safety applies to both product attributes such as absence of allergens and fewer ingredients, and company attributes like detailed accurate labeling.	Safety is considered both in the short-term (e.g., toxin free) as well as long-term (e.g., no carcinogens) and, as a result, has interplay with Health & Wellness.	Companies should broaden their definition of “safety” to manage and satisfy an expanded set of consumer expectations.
Social impact	Social impact encompasses company attributes such as local sourcing, sustainability, animal welfare, and fair treatment of employees.	The number of consumers reporting strong Social Impact preferences is small, but represents a loud and vocal group that can sway public opinion.	Companies must identify which issues have most opportunity or represent the greatest risk, and when to lead vs. follow.
Experience	Experience includes retail store layout and services, channel innovation, brand interaction, and personalized engagement spanning pre, during, and post-purchase.	As consumer expectations increase, experience beyond the actual product or service can elevate satisfaction, trust and loyalty.	Manufacturers must authentically engage with consumers, both directly and in partnership with retailers.
Transparency (an overarching driver)	Transparency requires product attributes such as clear labeling, certification by trusted third parties, and company attributes like access and trust.	Consumers want access to many types of product/brand information and want to access it across mediums (e.g., website, in-store, apps, etc.) in real time.	Companies should gather and provide access to all relevant information, and be prepared for two-way engagement to promote trust.

Health & Wellness

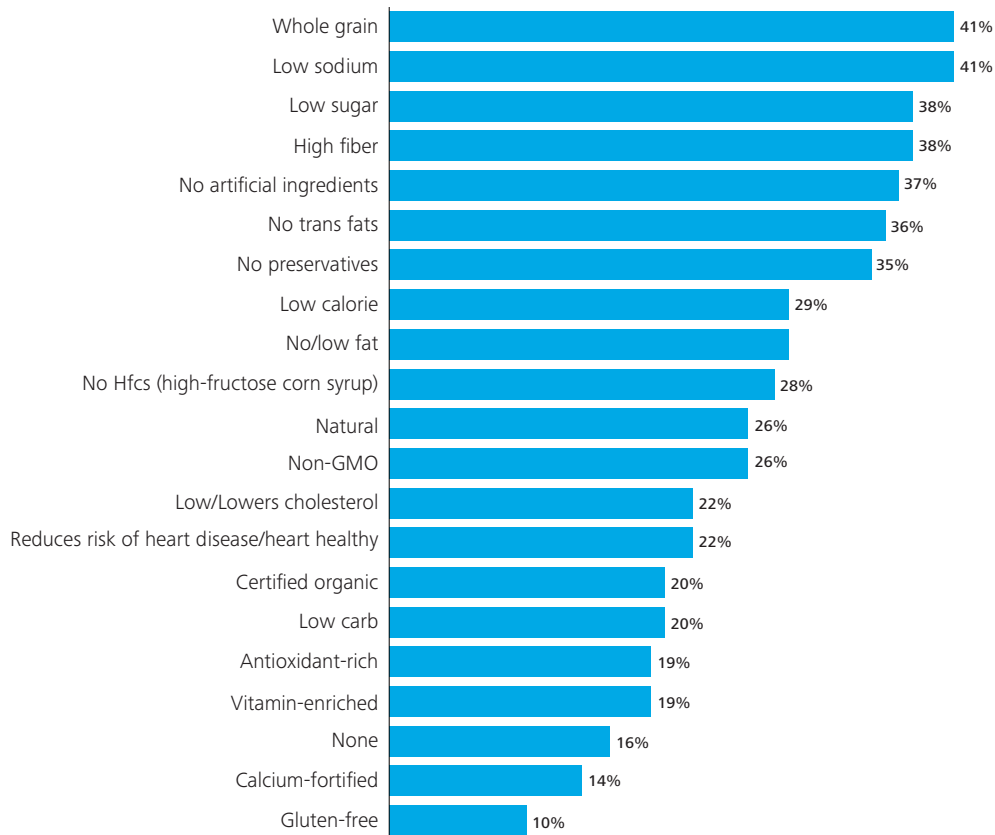
What consumers consider “good for you” has shifted; when considering “Health and Wellness”, they now take a more holistic perspective by weighing more product attributes, qualitative product claims, and longer-term considerations.

Historically, nutritional content was often the solitary consideration in purchase decisions based on Health and Wellness—and most consumers focused on a single element (such as carbohydrates, protein, or sugar). However, data now suggest that those days are likely gone: A 2015 Datamonitor Consumer report predicts that diets focusing on a single element of nutritional content have peaked and will be scarce within five years.¹¹

In fact, today’s consumer considers many Health & Wellness attributes simultaneously. FMI’s 2015 U.S. Grocery Shopper Trends report (Figure 13), illustrates that consumers now look at many data points (such as qualitative product claims and quantitative nutritional content information) related to Health & Wellness. According to this report, the average consumer seeks 5.4 claims on the front of the package, and considers 9.9 nutritional content facts on the back as important.¹² That is 15.3 pieces of information related to Health & Wellness that the average consumer wants to know.

Figure 13: The average consumer looks for many pieces of information related to Health & Wellness

Percentage of surveyed consumers seeking each claim when looking at package front



Source: FMI U.S. Grocery Shopper Trends, 2015

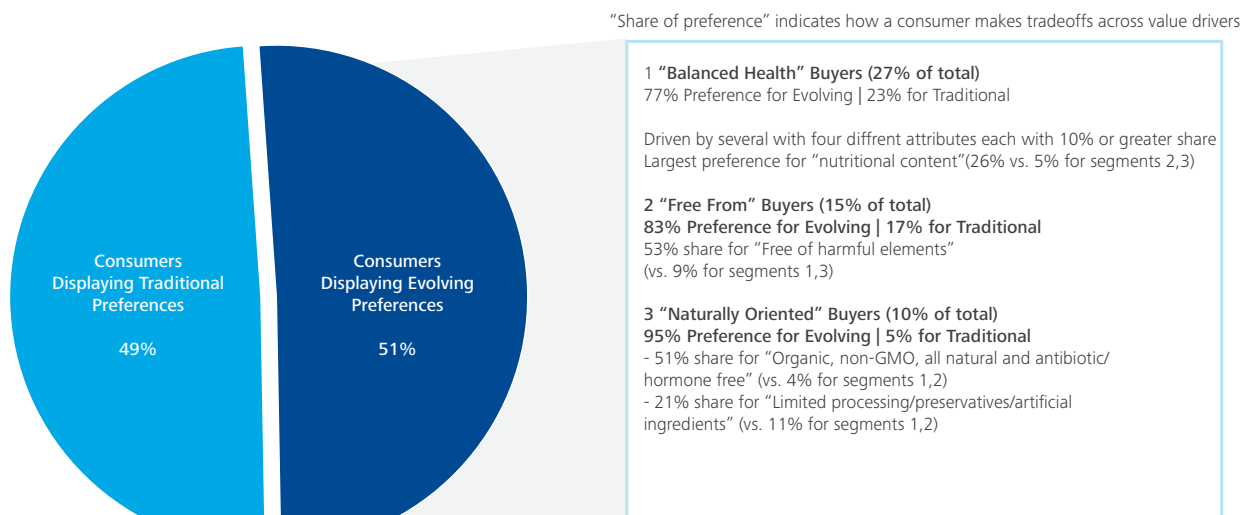
With so much information to consider—and so much changing—there is no single definition of Health & Wellness. Consumers’ holistic perspectives on Health & Wellness are not limited to categories traditionally considered “Healthy,” such as breakfast and fresh items. For example, in Deloitte’s 2015 Consumer Food Value Equation Survey, we found that when considering a recent purchase of frozen dinners, canned goods, or snacks/sweets, 36 percent, 29 percent, and 24 percent of consumers surveyed, respectively, considered nutritional content as a key factor in their purchase decision (compared with 25 percent across all categories).¹³ That’s been the experience of a senior vice president of merchandising and marketing at a large regional retailer, who said, “Frankly, people are even looking for [better nutrition] in potato chips and juice.”¹⁴ Health & Wellness, for those shoppers, is something that transcends categories.

Relatedly, consumers now take a longer-term perspective on Health & Wellness, as they shift from thinking about “What impacts my body today?” to “What might impact my body in five, 10, or 20 years?” FMI’s 2014 Food Retailing Industry Speaks report summarized the movement well: “Today is about living well and living longer... away from disciplined regimes (diets) toward flexible, less intentional activities such as buying ‘fresh’ and less-processed food...”¹⁵

Consumers who weigh evolving value drivers more heavily than traditional ones fall into three groups, each with distinct preferences for components of Health & Wellness.

The 51% of consumers who expressed greater share of preference for Evolving drivers is not homogenous, with specific nuances in Health & Wellness preferences that drive the behavior of each group (Figure 14).¹⁶ When asked which attributes they considered specifically when buying a recent product, consumers in each segment had similarly differentiated responses.¹⁷

Figure 14: Among the fifty-one percent of consumers surveyed who expressed greater preference for evolving value drivers than traditional ones, three distinct groups emerged
See Appendix A for additional detail



Source: Deloitte consumer food value equation survey, 2015

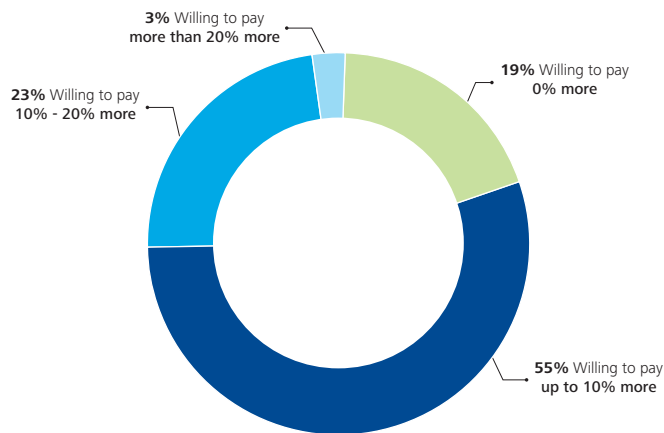
While these groups have distinct preferences regarding the components of Health & Wellness, each of them is relatively “flat”. Just as the 51% of consumers who expressed greater preference for Evolving drivers is not easily defined by demographic variables, these buyer groups represent a broad cross-section across age, income, and geography.

Important to retailers and manufacturers alike, when it comes to Health & Wellness, consumers appear willing to pay for features they want.

Although actual purchase behavior was not measured or correlated to consumers' stated willingness to pay, Deloitte's American Pantry Study, found that 81 percent of consumers surveyed expressed such a willingness to pay more for existing and new products that were "Healthier" or "contained organic or natural ingredients" (Figure 15).¹⁸

Figure 15: Consumers state they are willing to pay a premium for "Healthier" products

In response to question: "How much more are you willing to pay for a Healthier version of a product?" Percentage of surveyed consumers stating willingness to pay each premium for "Healthier" versions of products

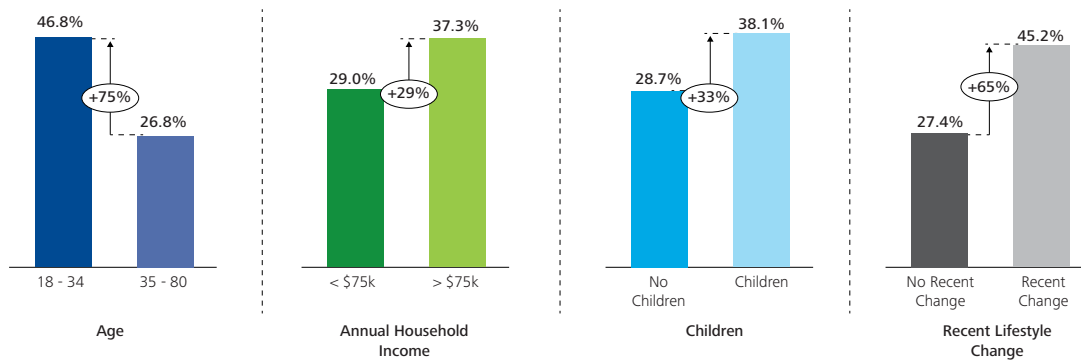


Source: Deloitte American Pantry Study, 2015

Willingness to pay is even more pronounced for certain consumer groups (Figure 16). For instance, 18- to 34-year-olds surveyed were 75 percent more likely than older consumers to express willingness to pay "significantly" or "moderately" more for Health & Wellness attributes. Consumers who started a new diet or a new/modified exercise program, those with children, and those with higher incomes also expressed a greater willingness to pay for Health & Wellness attributes.¹⁹

Figure 16: Subsets of consumers expressed even greater willingness to pay for Health & Wellness

Percentage of surveyed consumers stating willingness to pay "significantly" or "moderately" more for at least one Health & Wellness attribute



Note: "Recent Lifestyle Change" defined by having starting a diet or new/modified exercise program in the past year

Source: Deloitte Consumer Food Value Equation Survey, 2015

Section summary:

- Health and Wellness represents the most significant of the Evolving drivers to consumers as they make purchase decisions.
- There is no single definition of Health & Wellness among consumers, even as they prioritize their concerns among a growing list of factors.
- Health & Wellness consumers who weigh Evolving value drivers more heavily than Traditional ones fall into three groups:
 - **Balanced Health buyers** lean toward “nutritional content”, and “fewer ingredients, preservatives, artificial ingredients/limited to no processing”.
 - **Free from buyers** prefer products that are “free of harmful elements”.
 - **Naturally oriented buyers** state widespread adoption of evolving value drivers, and especially prefer “organic, non-GMO, all natural and antibiotic/hormone free.”.
- Consumers stated a willingness to pay a premium for “Healthier” products, particularly younger buyers, more affluent buyers, buyers with children, and those with a recent lifestyle change.

Safety

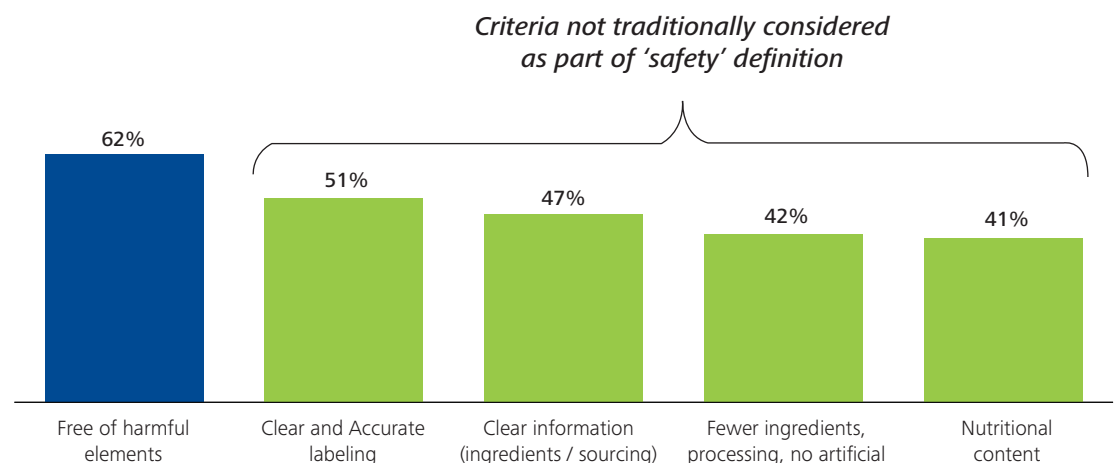
Consumers’ definition of Safety reaches beyond industry’s more narrow focus, expanding into longer-term concerns and attributes traditionally associated with Health & Wellness.

Safety is no longer strictly defined based on near-term risks. According to Deloitte’s 2015 Consumer Food Value Equation Survey, when asked to consider a definition which defines a safe food and beverage as “one that will not cause any immediate, physical harm”, nearly 7 percent do not agree with the definition at all. An additional 15 percent disagree with part of the definition, and over 52 percent agree, but think something is still missing from the definition.²⁰

Consumers now include within their definition of Safety attributes typically linked with Health & Wellness and Transparency, such as “clear labeling,” “information on product contents, limited processing and artificial ingredients,” and “nutritional content” (Figure 17).²¹

Figure 17: Many new attributes are now part of consumers’ definition of Safety

Based on survey question: When you think about safe food and beverages, do you consider any of the following? Please select all that apply. Percentage of surveyed consumers ranking an attribute as an important measure of safety (showing top five attributes only)



Source: Deloitte consumer food value equation survey, 2015

But that doesn't mean consumers have discarded concerns for common, near-term measures of Safety.

Safety issues remain important to consumers, however most of the factors that consumers seek place the onus on manufacturers (e.g., clear and accurate labeling). But consumers also expect retailers to participate: According to an FMI study, 42 percent of shoppers in 2014 said they rely on retailers to assume a greater role in managing food safety (up from 25 percent in 2009).²²

As consumers perceive gaps based on their newer, expanding definition of Safety, they will likely raise their concerns with manufacturers, particularly when Safety issues arise. Companies still operating under the old definition of safety will likely feel ongoing pressure to address consumer concerns in a way that meets this evolving, long-term need.

Section summary:

- A meaningful number of consumers now think about Safety from a holistic, longer-term perspective, which has led to a blurring of lines between Safety and Health & Wellness.
- Consumers include the following in their Safety definition: Health & Wellness or Transparency concerns such as "clear labeling," "information on product contents, limited processing and artificial ingredients," and "nutritional content".
- Consumers have not discarded concerns for common, near-term measures of Safety, and 42 percent of consumers state they rely on retailers to assume a greater role in managing food safety.

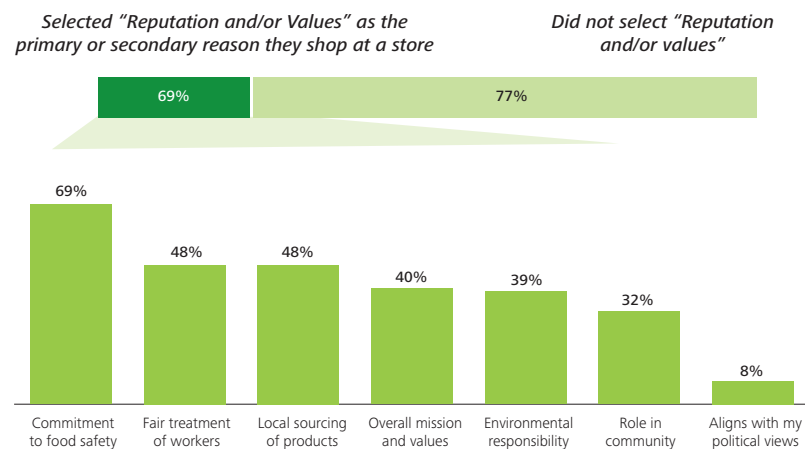
Social impact

Many consumers have become increasingly interested in companies that operate in a "responsible" way. But what exactly does that mean? For consumers who choose a retailer based on "reputation and/or values," Deloitte's 2015 Consumer Food Value Equation Survey found that several attributes contributed to this definition (Figure 18). These include, in descending order, commitment to food safety, fair treatment of workers, local sourcing of products, overall mission and values, environmental responsibility, and role in the community.²³

Other attributes have also surfaced, including several sub-topics of environmental responsibility (e.g., responsible use of scarce resources, use of safe agricultural methods, and minimization of pollution), minimization of food waste, broader support of local farmers and global suppliers, and animal welfare. While many of these are linked to the other Evolving value drivers, some Social Impact factors move beyond product-specific attributes and into business-wide practices. This can make them especially challenging for a company to address.

Figure 18: Consumers who care about Social impact consider myriad attributes

Percentage of surveyed consumers selecting attributes linked to Social Impact as reason for choosing a retailer



Source: Deloitte consumer food value equation survey, 2015

Twenty-three percent of consumers surveyed choose one or more of their shopping destinations based on Social impact attributes (Figure 18).

Industry executives we interviewed, especially those who work for manufacturers, are mindful of Social Impact-related initiatives, but often do not see them as a driver of purchase behavior. Reflecting a common sentiment, a sales executive at a major manufacturer stated, “Social responsibility is less of a focus—consumers care about it, but aren’t buying based on it.”²⁴

Retailers were more likely to mention Social Impact as a key driver of consumer behavior (for example, engagement in the local community or fair wages and treatment of employees). But they acknowledged they also faced challenges in determining the right investments such initiatives should command.

According to the 2015 *Good Must Grow* report, the number of consumers who plan to buy more goods or services from socially responsible companies this year (32 percent) is almost double that of 2012 (18 percent).^{25,26}

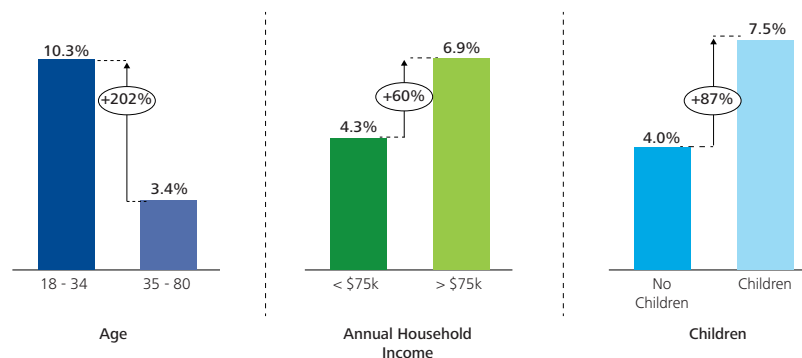
Though only representing only five percent of the population, consumers who selected attributes related to Social Impact as drivers of a recently purchased product²⁷ represent a loud and influential group that appears to be growing in size.

The diversity and purchasing profile of this small but growing group make them a highly-sought-after portion of the population. Those who are Millennials, higher-earning, or parents are most attuned to Social Impact with purchases reflecting their value-based lifestyle.

The same *Good Must Grow* report found that 41 percent of 18- to 24-year-olds and 38 percent of 25- to 34-year-olds plan to buy more goods or services from socially responsible companies this year, compared with the 32 percent average.²⁸ Furthermore, according to Deloitte’s 2015 Consumer Food Value Equation Survey (Figure 19), consumers who are Millennials, higher-earning, or parents were more likely to consider Social Impact when purchasing a recent product.

“A lot of [business practice] goes unquestioned for a long time until there is an event,” noted a retailer executive with whom we spoke. “[But] if they find out that you are not following the rules (e.g., using suppliers who do not pay fair wages), then there is a real price to pay.”²⁹

Figure 19: Consumers who are millennials, higher-earning, or parents were more likely to consider Social Impact
Percentage of surveyed consumers considering Social Impact when purchasing a recent product



Source: Deloitte consumer food value equation survey, 2015

Section summary:

- Consumers have become increasingly interested in companies that operate in a “responsible” way.
- Twenty-three percent of consumers surveyed choose one or more of their shopping destinations based on Social Impact attributes.
- Though only 5% of surveyed consumers say they prioritize Social Impact in their purchase decisions, this population is loud, influential, and growing.
- Social Impact is especially important to Millennials and wealthier consumers—groups that represent a highly-desirable demographic to retailers.

Experience

For retailers, innovations in the shopper experience can be significant drivers of differentiation, particularly those related to service and channel. It is in the experience realm that retailers weave together the tangibles of their offering—product, price, presentation, service, etc.—to make an emotional connection with the shopper. This was highly relevant to our discussions with retailers because it is through this connection that they seek to align with shopper values. “There’s an opportunity to capitalize on this experience-seeking consumer trend... [people are] seeking out what’s new, interesting, and undiscovered,” said one vice president of communications.³⁰ Many executives with whom we spoke described efforts to cater the store experience to the Evolving value drivers of the shifting value equation—for example, expanding perimeter sections to highlight fresh and local products, or training store employees to answer shopper questions about product attributes like sustainable sourcing. Several also mentioned initiatives to provide additional services to shoppers, such as dietitian advice. But in pursuing such new initiatives, all retailers know that the basics—store conditions, timely checkout, in-stocks, easy navigation and product access—cannot be compromised.³¹

Channel innovation to boost the shopper experience has become increasingly common in the past five years, especially as e-commerce grocery becomes more feasible and other Evolving value drivers reach a tipping point for scalable opportunity. At one end of the spectrum, a few recent start-up companies aim to blend value drivers including Convenience, Taste, and Health & Wellness in a brand-new direct-to-consumer channel. At the other end, established retailers are launching new retail experiences tailored to specific shopper segments and needs.

For brand owners, experience often means consumer engagement, an industry buzzword that is easy to describe but difficult to create. One-way marketing messages (brand to consumer) are less efficient than they used to be, as consumers now desire and often expect one-on-one, personalized engagement and conversation. Beyond that, as consumers remain distrustful of big companies in general and large food companies in particular, they sometimes choose not to engage with the company at all, and instead turn to peers and various media channels for information (e.g., social media and blogs written by everyday consumers).^{32,33} Experience encompasses how consumers feel and interact with the brand or company along each step of the purchase journey—everything from searching for product information to consumption to customer service interactions. Brand owners have an opportunity at various points along this journey to become part of the purchase decision—as long as they do it right.

One of the most impactful ways for a manufacturer to shape the consumer experience is by providing relevant information that enlightens and educates consumers, and enables new ways for them to

interact with the brand. This is something a large, global ingredient manufacturer discovered when it began looking to boost the sales of its spices and seasonings through more creative, deeper consumer engagement. The output of that effort was an online tool launched in 2013 that enables consumers to build a unique “flavor profile” by answering a series of questions. Based on that profile, the online tool issues personalized suggestions for recipes using the manufacturer’s products that align with a consumers’ preferred flavors. Consumers can continue to refine their flavor profile over time by rating the suggestions as they try them. In the two years since its launch, the tool has been successful and the manufacturer has decided to spin off the underlying technology into a new company.

Section summary:

- Experience encompasses how consumers feel and interact with the brand or company along each step of the purchase journey—everything from searching for product information to consumption to customer service interactions.
- Experience is one of the most difficult value drivers to deliver on, as it is less tangible or directly measurable in many ways than are other value drivers.
- If retailers and manufacturers can use the shopping experience to substantially differentiate themselves in the market, they can create a sustainable advantage.
- Many consumers now desire and often expect one-on-one, personalized engagement and conversation.

The industry faces numerous challenges in using experience as a foundation for differentiation. For retailers, creating an experience-based sustainable competitive advantage is challenging when it may be easily copied, or when it is difficult to convince new shoppers to switch from their current retailer. For brand owners, the fundamental challenge is how to build and sustain a relationship with consumers that transcends functional value—and do so when opportunities for physical, face-to-face interactions with consumers are limited.

Transparency

Driven by a variety of issues and events, consumer demand to know more about the food they eat has intensified. More than ever, today's consumers want access to relevant information, when they want it, and in a clear, comprehensive, and understandable way to make informed choices.³⁴ For example, Deloitte's 2015 Consumer Food Value Equation Survey found that "clear and accurate labeling" was considered as a reason for the purchase of a recent item by 15 percent of consumers surveyed, second only to "nutritional content," considered by 25 percent of consumers surveyed.³⁵

One of the biggest benefits of Transparency is that it can play a major role in creating or restoring a sense of trust among consumers. This is especially important in today's environment, where consumers are significantly concerned that manufacturers would put profit over Transparency and are distrustful of large food companies.³⁶

Retailers, as well, are under the microscope, as consumers ratchet up the pressure on merchants to vet the products they carry—regardless of how feasible it is across a large and varied assortment. As one retailer we spoke with said, "When there is not immediately available info, there is distrust...."³⁷

Questions remain regarding what types and quantity of information to provide, and how quickly the industry can respond to Transparency demands.

Nearly all executives interviewed agreed that Transparency is one of the top priorities for their respective organizations and for the food manufacturing and retailing industries as a whole. Yet they also noted they face significant challenges in meeting consumers' needs.

- Ability to capture and verify data from multiple stakeholders across the value chain
- Consistency of data definitions and quality
- Concerns about sharing proprietary information or processes
- Introduction of brand risk or potential liability due to brand commitments or claims
- Additional cost

The industry has heard consumers' calls and is making strides to deliver on demands for Transparency—for example, through initiatives geared toward standardizing and adding detail to product labels.

According to a December 2, 2015 press release by GMA, more than 30 major companies had, at that point, already committed to taking part in a transparency initiative called, SmartLabel™ with other companies starting to follow suit. As the release describes, the SmartLabel™ program, created by manufacturers and retailers, enables consumers to get additional details about products by "scanning a bar code or doing an online search to reach a landing page with information on ingredients and other attributes of a wide range of food, beverage, pet care, household and personal care products."³⁸

And programs representing such progress must continue, as the pace of consumer demand for transparency is unlikely to slow.

Section summary:

- Consumers increasingly demand greater access to information about where their food comes from, what is in it, and how it was made and sold.
- Nearly all executives interviewed agreed that Transparency is one of the top priorities for their respective organizations and for the food manufacturing and retailing industries as a whole.
- In spite of the importance of Transparency, consumers' desire for detailed product information may prove difficult to collect, and sharing it may raise concerns from companies reluctant to share their own data with other companies.
- As of December 2015, over 30 major companies have begun participating in a new SmartLabel™ initiative, designed to offer greater transparency, offering consumers more product information and details using QR labeling and Web-based landing pages, with more companies joining at the time of this publication.

Implications and key questions for the food industry

Shifting consumer food value drivers create a significant challenge for most food and beverage companies. Executives see the changes in the market, but wonder to what extent meeting consumer needs along the Evolving value drivers are simply table stakes or an opportunity to differentiate and drive sales. We now know that there is a scalable opportunity given the structural shift that has taken place.

The new normal

These changes can create new challenges and new opportunities for both manufacturers and retailers, leading some brands to double-down on their strengths and focus more specifically on traditional needs while causing others to invest and explore evolving needs, creating a "new normal" in the food and beverage industries (Figure 20). This new normal reflects a portion of the market where purchase decisions will be based on both Traditional and evolving drivers for a large number of consumers.

Implications of the new normal

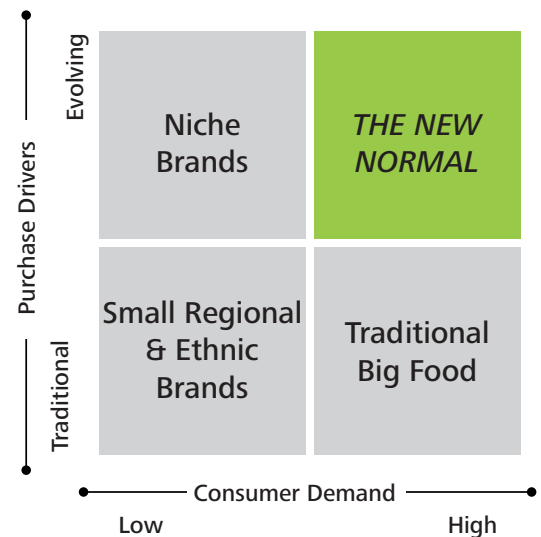
There are a number of implications for companies with products or services residing in the new normal:

- Consumer tastes and preferences will continue to fragment
- Retailers' role influencing consumer purchase decisions will continue to increase
- Smaller, newer companies will leverage new technologies, third party relationships, and improved engagement to earn consumer trust and to compete
- Larger competitors will adjust to fulfill new, unique value propositions
- Market success will be determined by building purpose-driven competitive advantages

To capitalize on shifting consumer food value drivers and the new normal, retailers and manufacturers should consider making meaningful changes to how they operate. There is no "silver bullet" that solves today's Consumer Food Value Equation; every company's situation is unique (e.g., current capabilities, whether they are publicly versus privately held, etc.) and choices must be based on that context. What will likely hold constant across the food and beverage industry is that driving growth will require systematic, integrated, and distinct choices that support a broader consumer agenda while mitigating some new risks.

As the industry responds to the growing importance of the New Normal, there are a number of questions that should be answered.

Figure 20: The new normal



Key questions

Most successful companies will ask themselves the following questions when addressing the emerging market realities created by the evolving consumer value equation and consumer-driven market disruptions:

- 1. How will our company be impacted by the “new normal”? How can we reframe and revisit current strategies to assure alignment with the “new normal” if needed?**
 - Have we revisited your value proposition to determine the impact of the “new normal” on current (and future) consumers or shoppers?
 - Do our performance expectations include sufficient weight for balance sheet elements such as brand equity?
- 2. How should we adapt products and services in the portfolio to address these Evolving drivers? How can we adopt a “product plus” mindset?**
 - Are we creating products or services that incorporate multiple evolving value drivers?
 - Do we have innovation capabilities that embed the “full plate” mentality across the organization?
 - Are we applying appropriate growth and margin goals to innovation depending on its risk profile?
- 3. How can we engage consumers in a genuine and two-way dialogue to build trust and assure alignment with consumer priorities, even as they evolve?**
 - Do we have capabilities to sense and predict major trends relevant to multiple levels such as market, category and product?
 - Are we able to proactively and immediately communicate with consumers?
 - Have we made focused, targeted investments in order to build trust and enhance credibility?
- 4. Can we enable new or evolved priorities through a revised business model, keeping an eye toward speed, flexibility, and transparency in offerings and experiences?**
 - Does our business model provide the level of speed and flexibility necessary to meet anticipated needs of a “new normal” environment?
 - Do we have visibility to and ability to assess risk associated with “brand commitment” attributes (e.g. sustainable farming claims)?
 - Are we leveraging sustainable ecosystems (e.g. partnerships, JV’s) to go to market more rapidly?
 - Are our capabilities, systems and culture (including performance expectations, incentives) aligned to the “new normal”?

Summary of recommendations

Deloitte's research clearly highlights a seismic shift in what consumers expect from the food and beverage industry. And these changes will require a response of equal magnitude from retailers and manufacturers to help meet consumers' evolving needs. Real transformative change—far more than typical attempts at dabbling with new initiatives—is needed, which in turn will require companies to make difficult choices and significant investments. Given the ongoing nature and trajectory of consumers' evolution, it's eminently clear that for retailers and manufacturers seeking growth, doing nothing is simply not an option.

Asking the questions we've raised, and deriving solutions customized appropriately to an individual company's unique context, companies can chart a clear path back to meaningful, not simply incremental, growth. Shoppers and consumers could once again be excited about the products and experiences being delivered by branded food and beverage companies and retailers who demonstrate a clear, informed sense of their evolving preferences.



Appendix: Methodology & objectives

Deloitte Consulting LLP, along with the Food Marketing Institute (FMI) and Grocery Manufacturers Association (GMA), began research for this report in 2015. Through client work within the Food and Beverage industry, Deloitte sensed that a profound shift in U.S. consumers' drivers of food and beverage purchase decisions was taking place. In discussions with FMI and GMA, and their respective member organizations, Deloitte recognized that many retailers and manufacturers alike were struggling to answer several important questions.

With this study, the three organizations set out to help determine:

- How are consumers' drivers of food purchase changing?
- Which shifts are near-term fads versus longer-term trends?
- To what extent is the food and beverage industry prepared to address the changing drivers?
- Based on the gaps between this study's findings and the industry's existing understanding of consumer shifts, what are the key implications for the industry moving forward?

The findings in this report are a result of a year-long effort including:

- A Deloitte proprietary quantitative survey fielded to 5,001^c U.S. consumers, all of whom passed the screening criteria (screener fielded to more than 11,000 U.S. consumers)
 - All survey data are weighted to represent "U.S. Food Purchasers" based on U.S. Census Data of age, gender, and household income
 - U.S. Food Purchasers" are defined as:
 - U.S. adults ages 18-80 AND,
 - A primary food and beverage shopper for their household AND,
 - Eats dinner at home at least three times per week
 - "U. S. Food Purchasers" therefore represent the 168 million U.S. consumers of highest value to the audience of this report
 - All survey questions referenced in this report were aided unless otherwise noted (i.e., respondents were asked single- or multiple-selection questions, as opposed to free response)
- Primary interviews with more than 40 executives from leading food and beverage manufacturers, distributors, retailers, as well as industry experts
- Thorough analysis of publically available and proprietary secondary research reports

^c 4,971 U.S. consumers included in Evolving/Traditional analysis, as 30 consumers who passed the screening criteria did not record sufficient responses for inclusion in that analysis.

Appendix: Tables and charts

Appendix A: Fifty-one percent of consumers surveyed weigh Evolving drivers more heavily than traditional ones; within evolving consumers, three distinct groups emerged

Consumer share of preference for a given attribute by segment

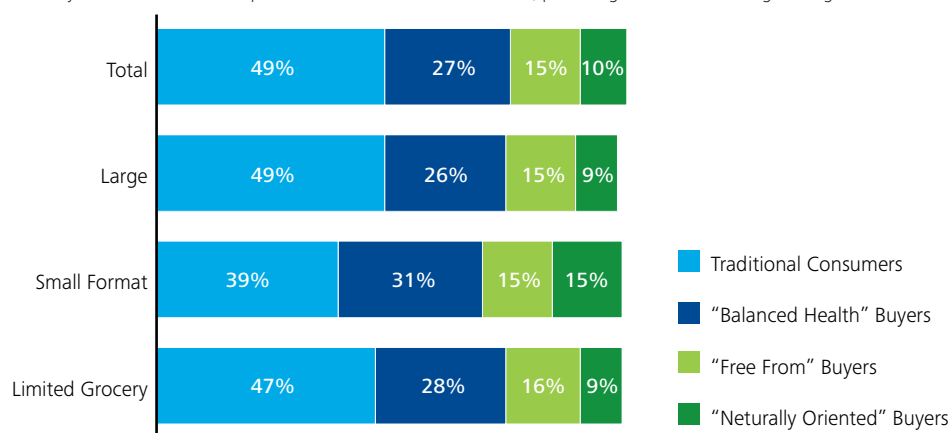
	Overall	Evolving consumers 51% of total			
		Traditional consumers 49% of total	"Balanced Health" buyers 27% of total	"Free from" buyers 15% of total	"Naturally oriented" buyers 10% of total
Traditional drivers *	51%	85%	23%	17%	5%
Confidence that the product is free of harmful selements	51%	85%	23%	17%	5%
Nutritional content meets my needs	13%	4%	10%	53%	7%
Limited or no processing, fewer or no preservatives, and/or fewer or no artificial ingredients	7%	2%	13%	7%	21%
Organic, non-GMO, all natural and/or produced without antibiotics or hormones	7%	1%	4%	3%	51%
Clear information on what's in it, how its's made, and where it comes from	5%	2%	9%	7%	5%
No ingredients that someone in my household might be allergic to	5%	1%	12%	4%	2%
Socially and/or environmentally responsible	2%	1%	3%	2%	5%
Subtotal evolving attributes	49%	15%	77%	83%	95%
Total	100%	100%	100%	100%	100%

Predominantly taste, price, and convenience; also includes 'brand I like' and 'looks appealing/interesting packaging' (total 6% share overall)

Source: Deloitte consumer food value equation survey, 2015

Appendix B: Small-format retail channels skew more toward evolving consumers than do other channels

Of surveyed consumers who shop at a channel at least twice a month, percentage that are within a given segment



Large format = traditional grocery/supermarket, mass merchandiser, warehouse/club

Small format = specialty food store, local/neighborhood market, farmer's market

Limited grocery = discount/dollar store, drug store, convenience store

Source: Deloitte consumer food value equation survey, 2015

Appendix C: Consumer segments differ in their typical retail channels (Detailed breakdown of Appendix B)

Of surveyed consumers who shop at a channel at least twice a month, percentage that are within a given segment

			Evolving consumers 51% of total				
			Total	Traditional consumers 49% of total	"Balanced Health" buyers 27% of total	"Free from" buyers 15% of total	"Naturally oriented" buyers 10% of total
Large format	Traditional grocery / Supermarket	100%	49%	26%	15%	9%	
	Mass merchandiser	100%	50%	25%	16%	9%	
	Warehouse / Club	100%	42%	31%	17%	10%	
Small format	Specialty food store	100%	29%	35%	15%	21%	
	Local market / Neighborhood market	100%	44%	29%	14%	13%	
	Farmer's market	100%	33%	33%	14%	21%	
Limited grocery	Discount / Dollar store	100%	48%	29%	16%	7%	
	Drug store	100%	46%	29%	16%	7%	
	Convenience store	100%	48%	27%	16%	9%	

Source: Deloitte consumer food value equation survey, 2015

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- ¹⁸ Deloitte American Pantry Study, 2015
- ¹⁹ Deloitte Consumer Food Value Equation Survey, 2015
- ²⁰ Deloitte Consumer Food Value Equation Survey, 2015. Respondents offered response to question: "I believe a safe food and beverage is one that will not cause any immediate, physical harm." What is your reaction to this statement? Please select one option that best reflects your reaction. Answers available were: a. I do not agree at all; b. I disagree with a part of it; c. I agree, but I think there is something missing; d. I fully agree, there is nothing I would add or change. 74% accounts for people who answered A-C.
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