



CONSUMER SPEAKS

Navigating fresh food inflation: How health and wellness can counter rising prices

Moderator: • Sam Loughry

Guest speakers: • Jim Mills, Alejandro Mendez, Justin Cook

Sam: Welcome to Consumer Speaks, a Deloitte podcast series where you'll hear industry specialists share their perspectives and insights on emerging topics impacting the consumer industry. I'm Sam Loughry, the leader of our consumer industry Audit & Assurance business of Deloitte & Touche LLP. I'm joined by Jim Mills, National Agribusiness Audit leader and Audit & Assurance partner at Deloitte & Touche LLP; Alejandro Mendez, California Agribusiness co-leader and Audit & Assurance managing director at Deloitte & Touche LLP; and Justin Cook, US Consumer

Products research leader at Deloitte Services LP. Today, we'll be discussing Deloitte's report, *Fresh food as medicine for the heartburn of high prices*. I want to thank all of you for joining today.

Okay, this is Deloitte's fourth year of running the Future of Fresh survey. Justin, I'm curious as to why do you study fresh food so closely, and what are you seeing in this year's study that stands out as unique?

Justin: Well, thank you, Sam. I'd have to say, in short, we study fresh food basically

because we have to, and here's why: The fresh perimeter has really become the basis of competition in grocery. In some of our prior research with grocers, they told us that it's a category of highest strategic importance for them. They're even backing it up with investments of a few kinds. There's floor space that they're adding, product offerings, staff — all for their fresh perimeter. So if you're a food retailer, or if you're even someone who sells through a grocery channel, you really need to pay attention to what's happening in fresh, and that's why we're paying attention each year.

This year, though, I'd say there were probably two things that really stood out for me. The first is just how much price inflation's affecting the consumer. Inflation is top of mind for them, and 53% of our survey respondents said that they are now stressed out when shopping in store. That's eight percentage points higher actually than last year, and it's because of food prices rising. And inflation is changing how people shop, what they shop for, and what they buy. It's also pushing out a lot of their other traditional purchase drivers as consumers are finding it hard to focus on little else but price.

And the second thing that stands out for me is this persistent interest in fresh food's health and wellness properties. So despite inflation and what it's done to some other priorities, there's this desire to just use fresh food for our health, and even fresh food as a kind of medicine.

Sam: I want to dig into the inflation impact a little further. Alejandro, recent CPI data from the Bureau of Labor Statistics says that food at home inflation is up five times last year's levels. How are consumers dealing with higher food prices?

Alejandro: Sam, I think that's right. Inflation is top of mind for many across all income levels, and consumers are attempting to stretch their dollars. In our survey, we learned that three in four are starting to deploy a whole series of tactics and strategies to deal with it. We put these into four categories:

- Pulling back on spending—products that have become especially expensive are now no longer part of their everyday shopping list. They are also trying to be very mindful about how they purchase to reduce waste. Even impulse buying has taken a hit, and consumers are focused on everyday needs.
- Consumers are also playing the channel game, shopping multiple outlets to cherry pick the best deals, while another chunk

is switching their default store to a lower cost outlet.

- I also think consumers have found substitutes—switching to private label that is less expensive—and some smaller fraction would say they are buying frozen.
- Lastly, I think some of them are taking more extreme steps. Some are going without, others are using food assistance.

Sam: Thanks Alejandro. Jim, you have the pulse of the consumer. Who are the consumers attributing these ongoing price increases to?

Jim: Well, Sam, fair or not, perception is reality when it comes to consumers. According to our survey responses, more than half of consumers believe food companies are raising prices more than needed in order to increase their profits, not just offset costs. Now, I'm sure there are plenty of growers, food producers, and retailers that would beg to differ, and I've certainly heard that from those folks, but that's what consumers believe. And this just isn't a US phenomenon. We see similar results globally. It's concerning because when consumers feel prices aren't fair, we've seen them pull back in their purchase intentions.

Sam: Let's flip this over to the food industry. What are some of the actions the food industry can take to overcome these consumer beliefs?

Jim: Well, Sam, some actions food producers and retailers can take to adapt to new consumer shopping behaviors, and this is similar to what Alejandro was talking about earlier, would include first, trade downs are going to happen. Facilitate those trade downs by making sure you have adequate inventory for substitutes, using creative placement of products on shelves, and highlighting preferred alternatives. This also includes manufacturers creating lower tier and cheaper brand variance so consumers can trade down without leaving your brand.

For others, look at growing private label offerings. Consumers are interested in private label, and depending on where a company sits in the value chain, this presents a big opportunity.

Next, trust and transparency go hand in hand. Providing clarity on pricing and keeping costs down as much as possible are important, and when prices must be raised, making sure consumers understand the reasons behind it also is important.

Next, helping consumers avoid waste by having appropriate package sizing, optimizing cold chains to present food as fresh as possible, or even education about storage tricks and "best by" dates.

Making it easy and guilt-free for consumers to use food assistance benefits is another area to focus on. Many still need to make this easier to do online, frankly.

These are just a few recommendations, but there are even more ideas and suggestions within the report itself.

Sam: Thanks, Jim. That's some great opportunities for the food industry. Alejandro, as we've been discussing, price has clearly remained the main purchase driver for consumers, but how have the three P's—that's price, perishability, and preference—fared in the current year results compared to last year's survey findings?

Alejandro: That's right, Sam. Price is still the number one purchase driver consumers reference. With inflation, frankly, that's no surprise. Fresh continues to enjoy willingness on the part of consumers to pay price premium for the freshest foods available. And while there's still a high level of willingness, this year's results shows it at the lowest level in the four years we've been doing this survey.

When shopping frequency was down, perishability was playing a big role with

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fresh because it was harder for consumers to stock up on it if what they bought wasn't going to last through the next trip—which might be two to three weeks. Now, there's a focus on waste due to cost, making perishability almost a factor of price.

We see some of the most change when it comes to preference. The importance of sustainability, locally sourced, non-GMO, are all down at least 12 percentage points from 2019. The pandemic had already started to erode some of these numbers, but they have continued to stay down. Some consumers still really value these things, but there is too much else on their mind with inflation.

Sam: Justin, I want to turn back to you. Earlier you mentioned the report shows that health and wellness remains a high priority for customers. That's been on the agenda for a long time, so, what's different now?

Justin: Well, you're right. Interest in health and wellness from food is really longstanding. The industry has marketing messages and whole sections of stores devoted to it. What I'd say is newer is the really strong interest in using fresh food as medicine. So our research in this paper had shown that many consumers now believe there's a really strong connection between food and the therapeutic and preventative health benefits that it might bring. In fact, in this case it's three in four of everyone surveyed thought that those benefits were real. And we show a substantial number of consumers not only believe in these benefits, but when they go to buy stuff, and they're looking for health, they're actively seeking them out when they buy fresh food, and they're looking for health reasons.

And there are many reasons for us all to consider food's role in improving health. And according to Nielsen data that was published jointly by the Food Industry Association, that's FMI and the Academy

of Nutrition and Dietetics Foundation, over 48 million US households have a member with a health condition that needs to be managed through diet¹. Now these households represent 60% of Americans and nearly 270 billion in annual grocery sales. So this is a significant problem and a significant space to be addressing, and I'm sure many grocers would like to help their communities be healthier, but it's also a potential win-win for both the consumer and the food industry. The healthful properties of fresh food may even play a pretty large role in the premium we've seen in our past research that people say they're willing to pay for fresh. In fact, one in two consumers say that they would pay more for food that can act like medicine.

Sam: Those results seem to offer opportunity for the fresh food industry, but there must be some issues as well. Jim, can you talk a bit about some of the barriers fresh food producers have to overcome?

Jim: Sam, I'm glad you asked about that. While 80% of our respondents believe fresh food is healthier for them than package or processed foods that are marketed as healthy, fresh food still has some disadvantages. For example, packaged health products can more easily make specific health claims or labels, and can be formulated or supplementally geared towards the most desirable health outcomes, very difficult to do that in the fresh environment, as you might expect.

When it comes to using fresh food as medicine, there is an inherent information gap as well. 62% of consumers cite conflicting information and confusion about the healthfulness of specific fresh foods. Four in 10 consumers do not clearly understand which fresh foods can act like medicine. And a little over half of the consumers say it is essential to get data about food origin, safety, and nutritional properties to confidently use food as medicine.

Sam: Clearly, customers are searching for additional knowledge about eating healthy. Alejandro, do you have any suggestions as to how the food industry can help with this?

Alejandro: Sam, I have to be honest, I have to include myself in that bucket where I'm trying to learn how to eat healthier as well. Companies that can help consumers close the information gap between fresh food and its health outcomes have an opportunity to win over consumers and compete on aspects other than price. For about half of our consumers, a grocer-provided app could be an enabler. These customers are willing to use an app and share their data, as well as trust their grocer to provide personalized, food-based health recommendations. Our survey showed four in 10 even indicated a willingness to share their medical data, which could spur potential synergies with in-store pharmacies.

Sam: Justin, as you combed through this research, did you learn anything that might be useful for the food industry in helping consumers use fresh food as medicine and overcoming some of the barriers that you mentioned earlier?

Justin: There are several things that the food industry might consider here when it comes to helping consumers use food as medicine. And many of these are detailed in the paper, but the first kind of set of actions involve preparing the way. So, one of the first things you want to do when preparing the way here is just establish a foundation for truth. Everything to do with food as medicine should really be based on validated scientific claims. So you're going to want to involve experts like registered dietitians and nutritionists, other health experts to really help validate the claims and help in any guidance that you're providing to shoppers.

1. Krystal Register, "The food as medicine opportunity at food retail," produced in collaboration by FMI and the Academy of Nutrition and Dietetics Foundation, 2021.

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You want to stock up for health, just make sure that the stuff you've got on the shelves and the stuff you're selling includes a lot of food that can help meet these health needs. That includes specific groups like diabetics, or people with heart conditions, or even food allergies. And partnerships are helpful here too, so consider partnering with organizations that can help provide some context, data on nutritional properties, that come with resources, or can help you fill critical gaps.

The other kind of set of activities are around delivering value and just kind of getting things started. So, you might start at home, consider building some of these programs first with your employees or people in the community who are fresh food insecure to see what can be learned and to help some people along the way. There's nothing like an RDN nutritionist helping a consumer in the aisle find the best fresh food, but that doesn't scale so well. So, you've got to look to technology to really scale this, build a lifestyle marketing capability into your digital experience and app store, and you're going to want to

build a smart supply chain, so you've got to work with your suppliers on this. You need some of that data that Jim was talking about earlier to be able to let consumers use food as medicine with confidence. And that data's going to come through your suppliers and your supply chain.

And finally, exploring new frontiers. There are a lot of stores that have in-store pharmacies, and if consumers are willing to share their data, and the regulatory and other hurdles, that could really open up some new frontiers. Same with kind of a bigger picture thought about what's happening in the health industry. There's a lot of changes happening there too. And if food can play a role alongside providers and payers, there's some even bigger impacts that could happen for health and consumers.

Sam: That's a lot of great information. As we close out this conversation, do any of you have final thoughts you'd like to share to bring together what we've discussed today?

Jim: Sam, this is Jim. Maybe I'll just weigh in here. I think while inflation's getting

all the headlines and it's dominating the conversation right now, I think it's really important to recognize the demand for health and wellness is still strong, and there are opportunities for the fresh food industry to overcome the current challenges. I mean, just thinking about food as medicine is just a powerful concept, and I think food producers and retailers can leverage the trust they've built with their customers to bridge the information gap between fresh food and its health outcomes.

Sam: Thanks, Jim. Well that's our time for today. I want to thank Jim, Alejandro, and Justin for joining the discussion. If you'd like to read the full report and explore some of the insights we've covered, visit deloitte.com and select consumer products under the industry dropdown menu. While on the site, also check out our agribusiness practice. For more consumer insight, please visit our website at deloitte.com or email me, Sam Loughry. That's at sloughry@deloitte.com. Thank you for listening to Consumer Speaks, sponsored by Deloitte's Audit & Assurance business. Until next time, take care.

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