



Thom Blischok

Merchandising in a Recession

The tough economy means your shoppers are buying different products, and may be responding in unexpected ways to your promotions. Here's what you can do.

| BY WARREN THAYER

How are shopper habits changing, and what new strategies should you be implementing to protect and even grow your share of frozen and refrigerated foods in these tough times? For answers to these questions, we went to Thom Blischok, president of consulting and innovation for Information Resources, Inc., the Chicago-based marketing firm.

Blischok, a globally recognized futurist and retail thought leader,

drew rave reviews from readers when he discussed strategies for SKU optimization in our March 2006 issue. Today, with the economy in a serious recession, channel blur continuing and retailers in uncharted territory, it seemed only appropriate to pick his brain once again. He did not disappoint.

What are some key trends affecting refrigerated and frozen food consumers, especially in

today's rough economy?

In terms of food offerings, the key trend for retailers to understand is that we have to move from availability to affordability. It's becoming less about stocking everything and more about stocking what shoppers can afford. The 60% of households making less than \$55,000 per year are totally redefining how they eat. They've lost the equivalent of about \$4,000 in buying power over the last year, and they really have to find ways

COVER STORY

to stretch their food dollar.

Median income families — those with incomes from \$55,000 to \$99,000 — are selectively de-selecting, buying less expensive cuts of meat than they normally would. In frozen foods, they may be looking at affordable indulgences and ways to stretch meals, but they aren't actually redefining how they eat. High income households are prioritizing. By that I mean they're rethinking how they can extend their lifestyles at a somewhat lower cost. All these things, depending on your shopper base, will affect assortments. But I can't stress enough how important affordability is here. You have to help shoppers create meals and stretch their food dollar.

Literally about half of America is struggling to afford their



Some 55% of shoppers say they have scaled back purchases of higher-priced ultra-convenient meals, such as frozen pizza, shelf-stable dinners and refrigerated prepared lunches.

Frozen Foods						
Dollar Share Point Change — All Outlets						
Category	Grocery	Drug	Mass	Supercenter	Club	Dollar
Dinners/Entrees	0.1	0.0	0.2	0.5	-0.9	0.3
Ice Cream/Sherbet	-1.7	0.4	0.0	1.3	-0.1	0.0
Pizza	0.0	0.2	-0.7	0.5	0.0	0.1
Seafood	1.5	0.1	0.0	2.0	-3.5	0.2
Plain Vegetables	-0.5	0.0	0.3	0.5	-0.1	0.2
IQF Poultry	4.5	0.0	1.0	2.1	-7.6	0.1
Processed Poultry	0.8	0.1	0.0	-0.4	0.3	-0.1
Breakfast Foods	0.3	0.0	0.3	0.5	-0.4	0.0
Novelties	-2.1	0.7	0.2	1.6	-0.4	-0.3
Appetizers/Snacks	0.2	0.0	0.2	1.8	-2.2	0.1

Note: Numbers can shift considerably from quarter to quarter, but underlying trends here are clear.
Source: IRI Economic Shopping Behavior Longitudinal Database; IRI Consumer Network. Second quarter, total U.S., convenience store channel excluded as data not fully representative.

groceries. We surveyed shoppers and asked them whether they were having difficulty buying groceries.

For households with incomes under \$35,000, 56% said they were. For those earning between \$35,000 and \$55,000, 44% were. Even among households earning upwards of \$100,000, 16% said they were having difficulty with their grocery purchases.

Because consumers are working harder to make ends meet, 55% of surveyed shoppers say they have scaled back their purchases of higher-priced ultra-convenient meals such as frozen pizza, shelf-stable dinners and refrigerated prepared lunches. In turn, 53% are cooking from scratch and/or buying more convenience-style foods. These include frozen vegetables, frozen prepared poultry and refrigerated side dishes. This cuts across all income levels.

There are other ripple

effects. Certain population segments, especially lower-income consumers, are turning away from more expensive organic products and fresh produce, in favor of less expensive traditionally-grown

Think like a shopper: 'How can I get a frozen meal for four for under \$15?' That sort of concept will be a real winner in the marketplace, but it will require you to display meals differently.

products as well as canned or frozen produce. And among all income segments, people are tending toward foods that have been processed — sometimes due to cost, other times due to the greater convenience, such as marinated versus plain frozen poultry. But I think you can see what I mean when I say that retailers have to look at everything today through the lens of affordability.

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“What I don’t see in frozen and dairy is story-telling. You have packages with pictures, but nothing to tell you ‘Can I afford this? Is it nutritious? How can I combine a few items to make several meals?’”

Do you have any thoughts on the move away from restaurants and toward in-home dining?

There’s a significant shift to preparing meals at home, to

turning on the lights in the dining room. More than 60% of consumers say they are visiting restaurants less often than they did as recently as January. This is tied directly to

You might want to have chicken breasts next to frozen vegetables, next to frozen potatoes, next to a dessert.

another major shift – to meal ingredients and components. That’s what I was talking about when I mentioned the growth in frozen processed poultry, frozen vegetables and refrigerated side dishes.

Dollar for dollar, shoppers believe they can make more meals by pulling together components rather than by purchasing already-prepared dinners – despite their convenience. Prepared meals are generally not seen by shoppers as being as affordable as meal components, so frozen dinners

Refrigerated Foods						
Dollar Share Point Change — All Outlets						
Category	Grocery	Drug	Mass	Supercenter	Club	Dollar
Milk	-0.6%	0.0	-0.2	0.8%	0.2%	0.0
Natural Cheese	-1.1	0.0	0.0	0.8	0.6	0.0
Yogurt	-0.6	0.0	0.4	1.1	-0.5	-0.1
Juices/Drinks	-0.4	0.1	0.4	0.1	-0.2	0.1
Luncheon Meats	-1.0	0.0	0.1	0.3	0.6	0.2
Fresh Eggs	1.1	0.6	-0.2	-1.5	0.2	-0.2
Breakfast Meats	0.5	0.0	0.2	0.1	-0.6	-0.1
Salad/Coleslaw	-1.2	0.0	0.3	0.8	0.1	0.2
Processed Cheese	-2.2	0.2	0.1	0.9	1.2	-0.1
Dough/Biscuit Dough	0.2	0.0	0.0	1.1	-0.3	-0.5

Note: Numbers can shift considerably from quarter to quarter, but underlying trends here are clear.
Source: IRI Economic Shopping Behavior Longitudinal Database; IRI Consumer Network. Second quarter, total U.S., convenience store channel excluded as data not fully representative.

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Supermarkets are maintaining or building share across most top frozen food categories, but they need to invest to win across high-growth frozen meal components such as processed poultry and vegetables.

have been slipping a little. There are obvious exceptions, such as Café Steamers, the fastest-growing new product in the market. It works because it's an affordable delicious meal. But meal components are a huge opportunity, and they're not being addressed adequately.

Retailers really need to understand this, and get more granular about shopper behavior and how it is changing. They need to put more time and effort into understanding meal components, meal assembly and meal ingredients – how shoppers can grab three or four things and make several meals at home.

What can retailers do about all this in their frozen and refrigerated departments?

Maybe they should focus less on traditional categories, and more on merchandising affordable meals. Right now there is opportunity to rethink what frozen displays look

like. Think like a shopper: 'How can I get a frozen meal for four for under \$15?' That sort of concept will be a real winner in the marketplace, but it will require you to display meals differently. I've seen a few good examples along these lines at HEB, Publix and Supervalu, for example. These retailers recognize that to win the hearts and minds of shoppers, you have to rethink assortments and the way you sell merchandise.

In what ways?

By creating frozen food displays by meal components rather than by just categories or prepared meals. You might want to have chicken breasts next to frozen vegetables, next to frozen potatoes, next to a dessert. Think about putting together simple meals inside the display cases, and especially in endcaps. The tradeoff, of course, is that it's not necessarily what the manufacturer wants, or what the retailer wants, but it's how

consumers buy. Consumers right now are afraid, they're hesitating. What they need is for the manufacturer and retailer to show them simple, affordable meal solutions. If the frozen department doesn't do that, then center-store or ready-to-eat meals will.

What's lacking here, and how can we fix it?

What I don't see in frozen and dairy is story-telling. You have packages with pictures, but nothing to tell you "Can I afford this? Is it nutritious? How can I combine a few items to make several meals?" You might set the case for a Mexican fiesta, where the shopper can mix and match five items and do dinner for \$15 for a family of four. Or an Italian meal, or an all-American display with pot roasts, potatoes and the basics. You could even have a section for "affordable indulgences," like single-serve cream or desserts to help the shopper see that you are thinking

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Dollar for dollar, shoppers believe they can make more meals by pulling together components rather than by purchasing already-prepared dinners.

about their needs and saving them money. The frozen department can pull this together better than people might think. Frozen, in the eyes of many consumers, is essentially equivalent to fresh. Retailers need to understand that consumers will accept frozen foods today and actually see some affordability advantages in the department. Frozen foods can be of equal “freshness,” be more affordable on a cost per-ounce, offer portion control and have a long shelf life.

Let’s talk about affordability and promotion strategy.

Some promotions today just irritate people because they can’t afford them. You may put out a promotion with steaks at \$3.99 a pound, but if your core shoppers still can’t afford that at the time it is offered, it’s no good to anybody. There are also issues of promotional timing. We now understand that low-income shoppers are buying bigger pack sizes at the beginning of the month, and smaller sizes at the end. This means that advertising bigger packages at the end of the month may just make them resent it. So it’s critical to understand disposable income by time of the month and work that into your promotion strategy. The shopper looking to buy frozen chicken breasts may decide she can afford a 12-pack at the start of the month, since she can turn that into three

affordable meals. But at the end of the month, she may be able to afford only a three-pack. That should affect what items you stock and how you promote them.

Where does private label fit into this equation?

Private label is increasing across most categories. Over the past six quarters, much of private label has seen significant price increases but volumes haven’t changed significantly. By and large,

Frozen meat, seafood, processed poultry and unprocessed poultry all showed gains.

What do you make of what’s happening in the different channels, as it relates to refrigerated and frozen foods?

In the ongoing channel shift, supercenters are winning big-time. Grocers are continuing to see erosion, while drug stores and dollar stores are becoming the new convenience store.

Tradeoffs to Make Ends Meet Percent of Shoppers Who Say They Are...

	Under \$35K	\$35K- \$54.9K	\$55K- \$99K	\$100K+
Buying fewer single-serve packs	62%	67%	54%	45%
Cutting back on non-essential groceries	75%	70%	58%	41%
Buying fewer prepared meals	57%	57%	47%	47%
Trying lower-priced brands	62%	58%	50%	33%
Buying smaller quantities of favorite treats	60%	52%	42%	32%
Buying fewer organics (too expensive)	49%	58%	41%	32%
Buying more private label	56%	55%	45%	32%
Giving up favorite brands	50%	45%	32%	25%
Buying fewer healthy products (too expensive)	38%	35%	22%	17%
Buying less fresh produce (more expensive)	40%	30%	18%	12%

Products targeting upper-income consumers may see demand shopping shifts, Blischok says. There is significant upside opportunity for low-priced brands and private label. The availability of low-priced produce and other healthy alternatives is critical in low-income markets. More shoppers might be expected to agree with these statements today than when this survey was done in August.

Source: IRI Economic Trend Database; IRI Attitude Link Survey of 1,000 consumers in August 2008.

shoppers believe they are getting a better buy with private label, and sometimes – not always – the same quality as the national brands. Private label share of fresh and perishable items is mostly stagnant or slipping despite significant price increases. In the 10 leading fresh categories, only butter, luncheon meats, milk and natural cheese gained volume share points, and it was minor. But private label has been attracting new consumers across the high-growth frozen meal component categories I was talking about.

Grocery is still struggling to maintain share in fresh/perishables, and has posted respectable growth in fresh eggs. But supercenters are capturing more share in every other top category here. Grocers need to reassess their fresh/perishable strategies to ensure value and merchandising effectiveness across key meal component categories. Supercenters stand to gain here as fresh and perishable manufacturers succeed in securing optimal shelf space and placement. Club stores have done quite well in this segment, and



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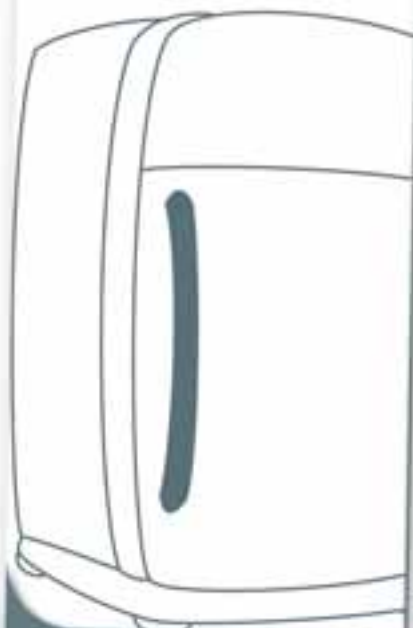
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should consider a deployment of successful cheese strategies to other key fresh and perishable categories.

In frozen foods, supercenters have good traction, posting share gains across key categories. Grocers are fighting back, and are

maintaining or building share across most top frozen food categories. To succeed, grocers need to invest to win across the high-growth frozen meal components I mentioned. They also need to reassess their assortment of frozen dinners and frozen pizza to

ensure affordability. Club stores appear to be missing a potentially large opportunity to grow sales within frozen meal components, however.

From a big-picture perspective, what should retailers be doing now?

They have to rethink how they serve and interface with the consumer. Relying on chain-wide campaigns developed at headquarters that fail to consider

Low-income shoppers may just resent promotion of bigger packages at the end of the month.

local factors, such as product preferences, tastes, affluence, education levels, and ethnic composition, is a failed strategy.

How about manufacturers?

Gone are the days when manufacturers can simply create infinite line extensions that protect existing market share and result in perhaps 1-2 percentage point market share increases. Manufacturers must innovate like never before, creating new products, new packaging, rethinking portions and developing other strategies to build and maintain shopper loyalty in these trying times. They must redefine relevancy. The products, assortment, formats and promotions that worked a year ago are very possibly ineffective today. ■

This article is based on interviews with Thom Blischok, and "Tough Times Create a Revival of the Dining Room," a report he authored for Information Resources, Inc. For a copy of that report, e-mail a request to thayerw@bnpmedia.com.

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