BIG insight™

Grocery Industry Pulse:

Reaching Today's Cost Conscious Consumer

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As the economy changes for better or worse, consumers learn to adapt and make changes, specifically when it comes to budgeting and cutting costs. This research report covers the current state of the consumer and how the changing economy has affected consumer grocery shopping behavior.

Findings include:

- Consumers are shopping closer to home and shopping at multiple grocery stores
- Consumers are leveraging coupons & sales more
- Consumers are preparing lists before shopping
- Consumers are using more resources such as digital vehicles to prepare for shopping trips
- Consumers are heading to recipe-specific destination sites to prepare for shopping

More consumers are shopping for sales more often, using coupons more, and buying store brand and generic products.

This research gives retailers greater insight into how digital is becoming a complement to traditional advertising channels and ways consumer behavior has changed in order to revise strategies to reach shoppers along the entire path-to-purchase.

The State of the Consumer

Every business, especially those with a direct relationship to consumers, is working through how to navigate this new world: a post-recession economy that barely even resembles the pre-recession glory. Consumers, too, are still working to find the best route to make their way through this uncharted territory. Confidence in the economy has never recovered to pre-recession levels, but has reached its highest point since December 2007. And, just when consumers started to think they were out of the woods and could see a light at the end of the tunnel, threats of rising gas prices began to weigh on their spending plans and general habits.

Logically, nearly half of consumers are taking fewer shopping trips and shopping closer to home as a result of fluctuating gas prices to keep a more wallet-friendly budget. In order to help save money today, more consumers are shopping for sales more often, using coupons more, and buying store brand and generic products. Interestingly, the percentage of consumers who are using coupons more and buying more store brand/ generic products as a result of gas prices and a tight economy have seen the biggest percentage increase over the past five years, making these much more popular choices than they were in 2007.

As a result of fluctuating gas prices, are you doing any of the following? (Adults 18+)

The "New Normal" – How Grocery Shopping Habits Have Changed

Almost 3 in 4 respondents indicate that their grocery shopping habits have changed over the past year. For consumers, there are some areas that are easier to cut back on than others when figuring out how to be more cost-conscious. Focusing on necessities, making fewer impulse purchases, and researching prices online are new habits that many consumers have taken a liking to in this "New Normal." While food is a necessity and purchasing groceries isn't something consumers can cut out completely, they have still developed a new way of thinking, for instance, they are heading online to conduct shopper research and redeem coupons for groceries. Even the smallest changes in shopping habits can have a huge impact on retailers.

Not only are consumers more likely to be shopping Walmart most often for groceries than they were five years ago, they are also more likely to be shopping Discount Stores in general. Moms are more likely than the general population to head to a Discount Store most often for groceries.

There is opportunity, though, for every grocery retailer to get a piece of the pie. Over 40% of respondents – including moms and those 25-54 – indicate that in the past year they have started shopping multiple grocery stores to get the best prices and deals.

However, loyalty has not vanished, as three in ten still shop at the same store but use more coupons and buy brands on sale. Just under one quarter of respondents shop at the same store but buy more generic/store brand items than they did a year ago. Moms, specifically, are more likely to shop at the same store but use more coupons and buy more generic/store brands on sale. Almost all consumers purchase at least some store brand/generic items, and over 90% are either purchasing more or the same amount as they were last year. Overall, nearly three quarters of cost conscious consumers have made some sort of change in their grocery shopping habits in the last year.

How have your grocery shopping habits changed over the past year?*			
	All 18+	25–54	Moms
I have switched my primary grocery store to one that is less expensive	18.6%	22.4%	19.6%
I now buy a bulk of my groceries at a warehouse club store	12.2%	14.2%	16.3%
I shop multiple grocery stores to get the best prices and deals	39.5%	41.2%	41.1%
I shop at the same store but use more coupons and buy brands on sale	29.1%	32.3%	34.0%
I shop at the same store, but I am buying more generic/store brand items than I did a year ago	23.0%	20.8%	22.5%
I have not changed my grocery buying habits in the past year	26.6%	22.3%	21.1%

* The sum of the % totals may be greater than 100% because the respondents could select more than one answer.

While the majority of those who purchase organic products have not changed their organic purchasing habits in the last year, cost conscious consumers are cutting back in several areas. Sweets such as bakery items, candy, and desserts including mixes and pre-made frozen desserts are the most likely items consumers have cut back on during their grocery trips, followed by magazines/books/DVDs and prime cuts or types of meat and seafood. This was followed by drink items like beer/wine/spirits and soda and sports drinks.

While cutting back on items, using coupons more, and buying more store brand and generic help to cut down the total bill, consumers cannot control rising food costs and, as a result, their average spend on groceries has still increased from pre- to post-recession. The frequency that consumers shop for groceries has also increased which could be contributed to many reasons. By shopping more frequently, shoppers' per bill cost would be lower; shoppers have the opportunity to take advantage of more sales and the opportunity to go to several retailers. The most popular frequency for grocery shopping is once a week, followed by the more frequent two times per week which is more likely among Moms than the general population. From pre- to post-recession, the percentage of Moms who shop two or more times per week for groceries has increased. Average monthly spend on groceries has steadily increased among Moms from pre- to post-recession, starting at $311.95 in Aug-07 and hitting $341.14 in Aug-11. Among the general population, average monthly spend has increased from $250.94 to $277.00.

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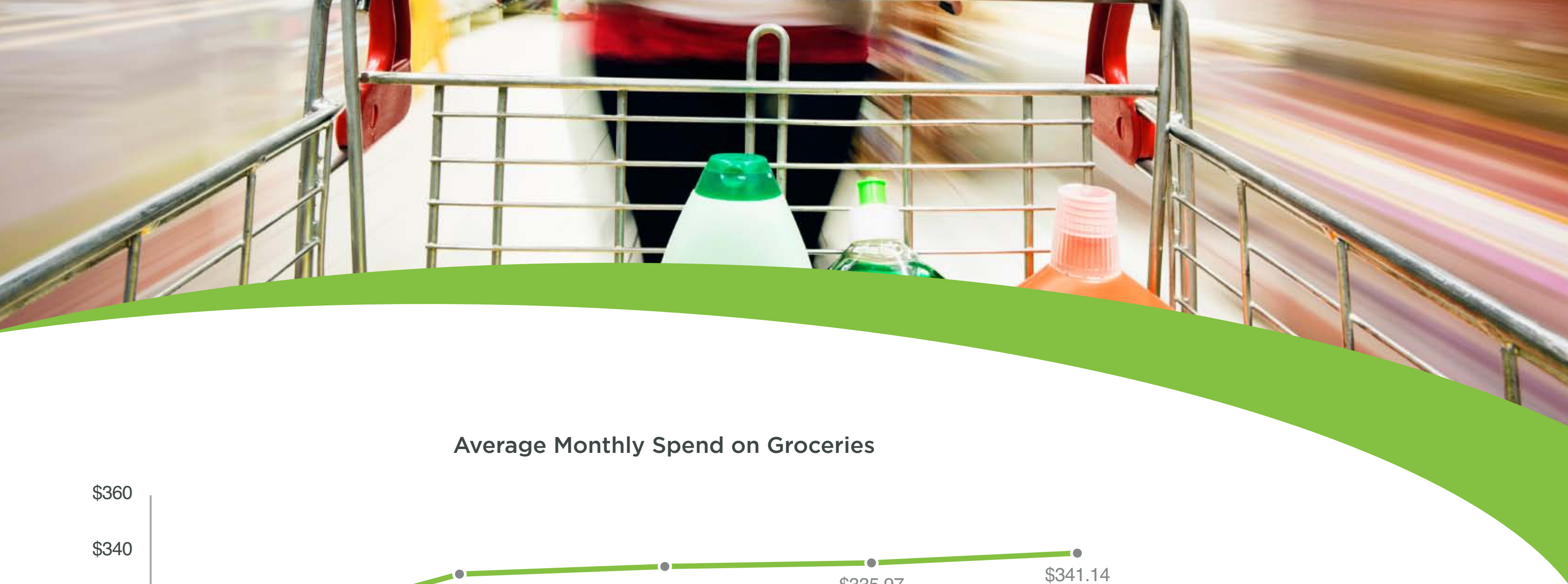
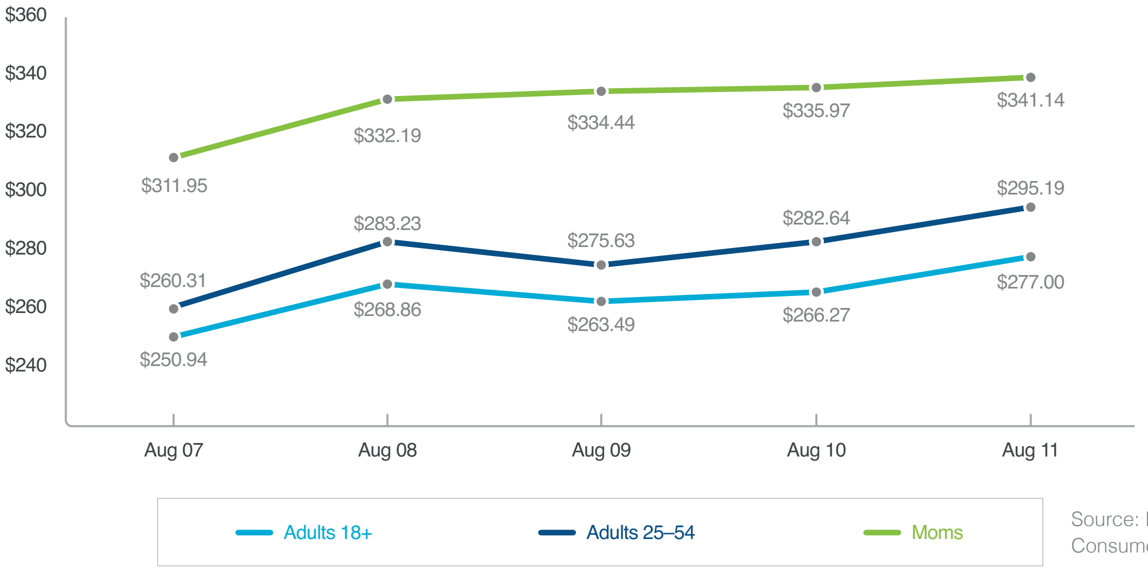


Average Monthly Spend on Groceries



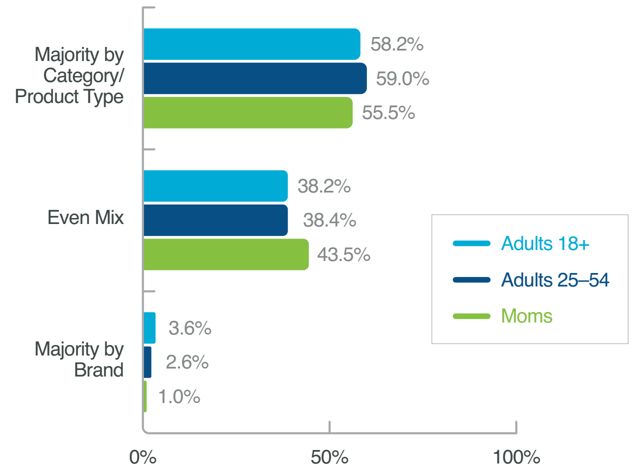
Source: BIGinsight™ Monthly Consumer Survey, Aug '07–'11

Shopping Preparation and Deviating from "The List"

One way to cut down on grocery costs is to be prepared when you get to the store and consumers have caught on; more than half regularly make a list before shopping for groceries. 62% of all respondents, 59.9% of 25–54 year olds and 67.9% of Moms regularly make shopping lists before grocery shopping. The majority of consumers also prepare for trips in some way, whether it's by using the Internet or checking out newspapers/circulars. Consumers are more likely to use recipe-specific destinations than social networks to prepare for their shopping trips. Consumers have found that leveraging digital channels, such as recipe-specific websites, to prepare for shopping are a great complement to the traditional routes that have worked well in the past. For retailers and CPG brands, digital mediums provide yet another channel to reach consumers along the entire path-to-purchase.

> Consumers are leveraging digital channels, such as recipe-specific websites.

When making your grocery shopping list, do you list items by category/product type or by specific brand?*



* Question asked of those who regularly or occasionally make grocery lists.

When the research has been done and the lists are made, they are constructed differently. While the majority list items by category/product type (i.e. toilet paper, lettuce, spaghetti sauce), very few list by only brand (i.e. Charmin, Dole, Ragu). Over one-third say that their list is an even mix.

This gives brands the opportunity to make the list even if their name is not written down. Further illustrating that point, more than half of consumers who make general lists decide which brand they will purchase at the store based on price, coupons, special promotions, quantity, etc. versus having a specific brand in mind while they are creating the list. In-store promotion is important to continue to reach consumers once they set foot in the store.

Influencing consumers to deviate from their list (or make impulse purchases) requires much of the same efforts. A third of all respondents and 25–54 year olds, and almost 40% of Moms regularly purchase items that are not on their shopping lists. These purchases are influenced by special sales, online coupons, shelf coupons, and in-store displays. While consumers still rely on ad inserts/newspapers, more and more are searching online for coupons, prompting them to purchase something that is not on their grocery list.

Store Loyalty Cards, Gas Perks, and Coupons

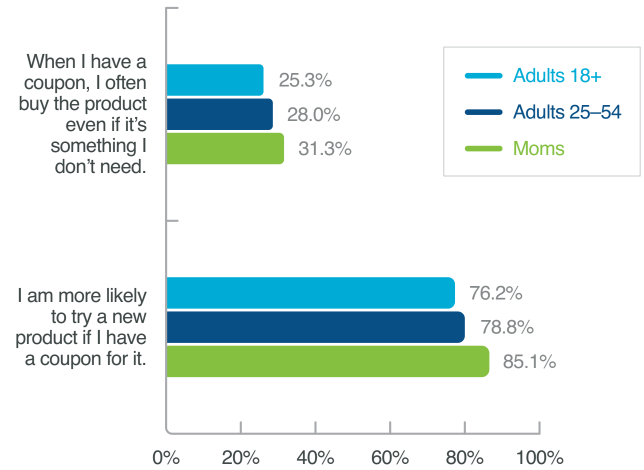
The majority of consumers have a grocery store loyalty card and indicate that the card makes them more likely to regularly shop for groceries with that particular retailer, which helps to conclude that the

"loyalty" cards are actually converting consumers to be more loyal. Gas perks that tie into those store loyalty cards further influence consumers to shop and spend more with that particular retailer. For those who don't have loyalty cards, many would be influenced to sign up for a loyalty card if their store offered a gasoline perks program.

Loyalty card shoppers are likely to both scan their loyalty card for savings and clip coupons on a regular basis, using these in combination to get the best deal. Close to

Of those who redeem coupons, more than three quarters say they are more likely to try a new product if they have a coupon for it.

Influence of Coupons —
Somewhat Agree or Strongly Agree



* Question asked of those who regularly or occasionally make grocery lists.

half of all respondents and 50.4% of Moms say they use coupons and scan their loyalty cards for savings regularly. Moms are slightly more likely to use and redeem coupons for savings, while those 25-54 are slightly more likely than respondents in general to scan their loyalty card for savings. Of those who redeem coupons, more than three quarters say they are more likely to try a new product if they have a coupon for it. One quarter say they often buy a product even if it's something they don't need if they have a coupon.

The Digital Connection

We have already learned some ways in which technology plays a role in how consumers are shopping for groceries today. For instance, while consumers still use advertising inserts and sources such as newspapers to find coupons to redeem, digital is on the rise and has become a great complement for delivering coupons. Over 30% of Moms use digital methods to find coupons. When making grocery purchases, coupons are the most likely media to influence consumer purchases, followed by in-store promotion and word of mouth.

The digital connection to grocery shopping habits does not stop with coupons. More than 90% of adults 18+, adults 25–54 and Moms regularly research products online before purchasing them in-store. Moms and those 25-54 are more likely than respondents in general to use the Internet on their computers to prepare. One quarter of those respondents indicated they researched food/ groceries online before purchasing them in a store in the last 90 days.

> More than 90% of adults 18+, adults 25–54 and Moms regularly research products online before purchasing them in-store.

Key Takeaways

Pre- to Post-Recession Trends

- **Increased Economic Confidence:**
  Confidence in the economy has never recovered to pre-recession levels, but has recently reached its highest point since December 2007.

- **Increased Use of Coupons & Store Brands:**
  The percentage of consumers using coupons more and buying more store brand/generic products as a result of higher gas prices has increased significantly over the past five years.

- **Increased Average Grocery Spend:**
  Despite efforts to cut back on spending with coupons and generic products, average spend on groceries has increased from pre- to post-recession as a result of rising food costs.

Current Grocery Shopping Trends

- **Cross-Shoppers:**
  Almost half of consumers say that in the past year they have started shopping multiple grocery stores to get the best prices and deals.

- **List-Makers:**
  More than half regularly make a list before shopping for groceries. While the majority list items by category/ product type, very few list brand and over one-third say their list is an even mix.

- **Coupon-Shoppers:**
  More than half of consumers decide which brand they will purchase at the store based on price, coupons, special promotions, quantity, etc.

- **Impulse Purchasers:**
  Coupons, sales, and offers influence consumers to deviate from their shopping list and make impulse purchases.

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Methodology

This report is derived from the following studies:

BIGinsight™ Monthly Consumer Survey, February 2007 through February 2012 (Average N = 8,500)

Media Behaviors & Influence™ Study, December 2011 (N = 24,578)

MaxPoint Interactive Cost Conscious Grocery Shopper Survey, March 2012 (N = 1,006)

All surveys were conducted online, via email.

Total respondents to the Monthly Consumer Survey and the Media Behaviors & Influence Study are representative groups of the total U.S. Adults 18+ population. Tabulations are balanced to the U.S. Census using proprietary algorithms.

Total respondents to the Cost Conscious Survey are primary grocery shoppers who purchase groceries in a physical store rather than online.

The terms "cost conscious consumers" and "consumers" are used interchangeably to describe the total respondent groups analyzed from each study. For more details, see the March 2012 Executive Summary and the Cost Conscious Grocery Shopper Survey analysis.

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