Trade-Offs Dominate Shopping Decisions

By: Todd Hale, Senior Vice President, Consumer and Shopper Insights, The Nielsen Company

CI SUMMARY: Healthier lives and healthier budget practices may be two positive outcomes from these tough economic times, but budgets are winning over healthier fare. U.S. shoppers have re-examined their buying habits, trimmed down shopping lists, downloaded coupons, opted out of pricey goods and downshifted to less expensive product and channel alternatives to stretch their dollars. Convenience remains a top priority, but store and shelf locations—while still vital—is slipping as value continues to gain shopper focus. Retailers and manufacturers responsive to demographic changes like the growing elderly and Hispanic population segments will be well positioned for future growth.

The homefront has become the battlefront in the consumer's war against shrinking incomes and budgets. Home-cooked meals have replaced restaurant dining. At-home beauty treatments have displaced salon and spa visits. Pantry shelves feature a raft of store brands vs. national brands and savings passbooks are making a rapid comeback. Black—as in black ink in the checkbook—is the new fashion accessory.

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While much has changed this year—near-term trade-offs are numerous and varied—some prevailing trends still hold true. On the health and wellness front, U.S. consumers are still looking to lead healthier lives, but economic pressures have led to a decline in "better-for-you" foods and sales of prescription drugs have taken a hit. It will take new learning and more marketing muscle to win and compete in this space. Convenience is still important and will continue to dominate purchasing decisions—from easily accessible store locations to handy heat-and-eat food products—consumers are looking for solutions that save time and money.

Demographically, an aging population and a growing ethnic influence will change the face of the U.S. market and new resources will need to be directed against these consumer groups. Additionally, shifts in spending power or wealth will likely continue to create a large group of consumers whose ability to spend freely will be challenged for many years to come.

Valuing value

A quick look at store counts says it all—consumers are placing a new emphasis on value and patronizing channels that deliver. As a result, Nielsen Trade Dimensions and TDLinx saw store counts soar for supercenters (+107%), dollar stores (+54%) and warehouse clubs (+31%). Dollar stores alone added 7,102 stores between 2001 and mid-2009. Although convenience store numbers for the period were up by 19,556 outlets, over 2,200 convenience stores have closed since the end of 2007, reflecting less traffic and profit from higher gas prices and the impact of big box retailers like Walmart, Costco and Kroger installing on-site pumps.

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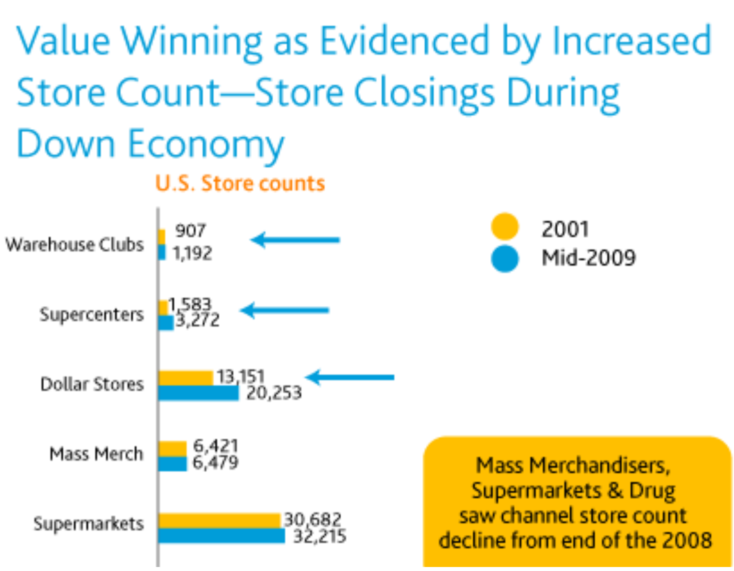

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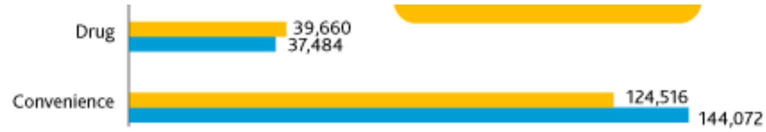


Source: Trade Dimensions® & TDLinx®, services of The Nielsen Company

In the mass merchandise channel, Target continues to lag behind Walmart's conversion of regular locations to supercenters, but Target has been aggressively expanding their food sections to offset losses from declining discretionary purchases. The death knell rang for small, independent drug stores in the wake of aggressive acquisition and store expansion campaigns by Walgreens and CVS.

While the grocery store count rose 5%, this tepid growth rate paled in comparison with value channels. Trip count decreased as well, further compounding profitability issues for some, but not all grocers. Growth in niche grocery formats from Aldi, Save-A-Lot and Trader Joe's has been on a tear as combined store count has grown from 956 stores to 2,771 stores by mid-2009.

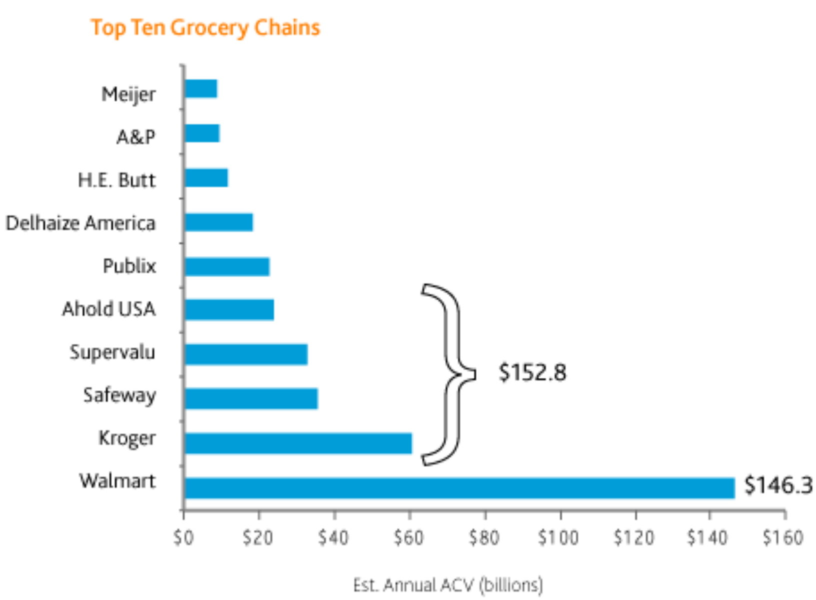
Economic pressures resulted in declining store count in the drug, grocery and mass merchandiser channels from the end of 2008 to mid-2009. And many major retailers have laid out less aggressive store expansion plans in the next couple of years.

Declining store count in the drug, grocery and mass merchandiser channels...

Variety wins, but...
Consumers continue to vote for variety by pursuing their channel options to category killers like pet stores, bookstores, office supply outlets, hardware and home improvement retailers and liquor stores, but store counts are down from the end of 2008 for all channels but pet. Toy stores continued a rapid decline in store count with the closing of 460 KB Toy Stores and electronics shops lost ground as Circuit City closed all 567 stores, countering the growth trend with store closings.

Food fight
Interestingly, the dominant force in toy retailing—Toys R Us—chose to broaden its merchandising footprint by expanding the consumables section in 260 of 600 stores. Grocery competition is dictated in large part by the actions of the central player, Walmart, whose sales of $146.3 billion in like grocery items almost equal the combined sales of the next four largest chains—Kroger, Safeway, Supervalu and Ahold at $152.8 billion.

Walmart Sales Almost as Large as Next Four Competitors



Source: Progressive Grocer – May 2009

A number of convenience store operators are seizing the moment to grab declining restaurant sales by expanding their food offerings to include fresh produce, prepared salads, and ready-to-eat and heat-and-eat assortment. If you haven't made a trip to a convenience store lately, check out what is being served up at 7-11, Sheetz, WaWa, BP and other operators.

Right sizing

Tesco issued a challenge to U.S. retailers when it introduced the Fresh & Easy format in the southern California, Phoenix and Las Vegas markets in 2007. This forerunner of a downsized format encourages walk-up traffic, serves up lots of fresh options—including flowers produce, meat, poultry and seafood—tickles the taste buds with a tasting station in the rear of the store, features an appealing store brand line and dishes out a wide array of prepared meals for busy people.

Walmart is poised to launch a counteroffensive...

Walmart took note and apparently is poised to launch a counteroffensive with its own slimmer format—the 15,000 square foot Marketside banner—roughly half the size of the smallest Walmart store. A four-store pilot debuted in the Phoenix area last year, and although the economy has stalled expansion plans, the company intends to leverage the Marketside name in a line of store brand goods.

Other grocery retailers like Giant-Eagle, Safeway, and Supervalu are experimenting with their own version of small grocery formats, but it will be interesting to see how the battle between small, large and supersized grocery formats continues.

Coupon action

Coupon clippers unite! Once a staple of any prudent shopper's routine, coupons fell out of favor, dropping from a 1999 high of 4.6 billion redemptions to a low of 2.6 billion by 2006 and holding steady at that rate through the end of 2008. As wallets lighten, consumers have decided to re-think their position on coupon clipping, or in a Web-enabled world, downloading the offers. Beginning in the fourth quarter of 2008, coupons have registered big gains, starting with a 10% upswing in Q4, followed by a 17% uptick in Q1 of 2009 and a 33% jump in Q2.

Consumers have decided to re-think their position on coupon clipping...

Coupons Back in Vogue

Source: Inmar

Increased coupon activity can be traced to the combined effect of increased redemption rates and increased distribution for both food and non-food items. While freestanding inserts account for just under 90% of distributed coupons, online represents the fastest growing method for redemption. Most retailers now allow shoppers to print coupons from their websites. Kroger and Safeway both use Cellfire, a company specializing in mobile coupon distribution, to enable shoppers to download coupons to their frequent shopper cards via a computer or cell phone eliminating the need to bring coupons to the store.

Dining in

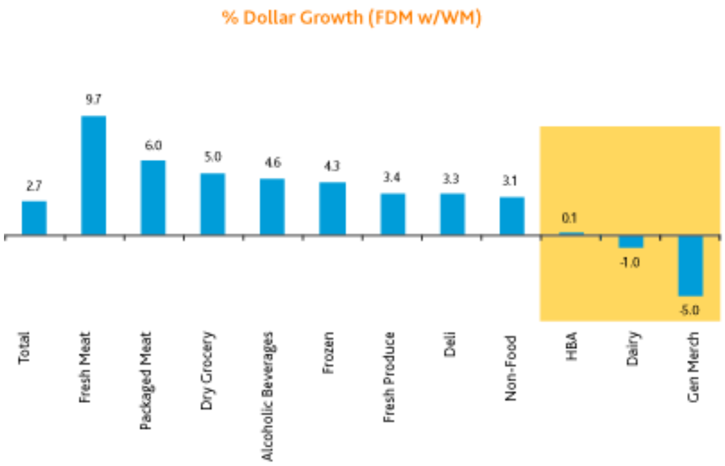
Dining out is on the outs. In 2007, a study of 32 national restaurant operators found that 20 reported same-store gains averaging more than1% for the year. Fast forward to 2008, and the reverse holds true. Fully 30 of 32 operators reported same-store losses averaging -8.2%. Nielsen tested the waters in April 2009 and found that the more affluent segment of adult consumers earning $70+K per year were eating out less often than the national average, opening up opportunities for grocers to deploy assortment, pricing and promotional programs targeting this wealthy segment.

The more affluent segment of adult consumers were eating out less often...

When it comes to retail trip activity across the board, Nielsen shows online shopping is demonstrating real staying power. The retail formats taking the biggest hit as a result of belt-tightening are those which rely on discretionary trips, like toy, electronics and department stores.

Eat it or beat it
If consumers can't eat it, they're deciding they don't need it. A quick glance at edible department sales versus non-edible categories says it all. While meat (what's a meal without meat) led the pack with a 9.7% dollar sales increase for fresh offerings and 6% gain for packaged items, general merchandise lost ground with a -5% dollar sales decline and health and beauty aids barely moving the needle with a 0.1% dollar sales increase.

Edible Departments Driving Growth; Less Growth in Discretionary & Dairy Dept



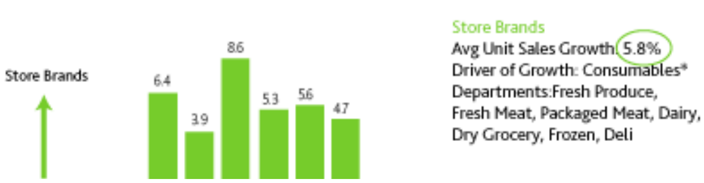
Source: Scantrack, a service of The Nielsen Company; (FDM w/ Walmart)
52 weeks ending 07/11/09 (versus prior year)

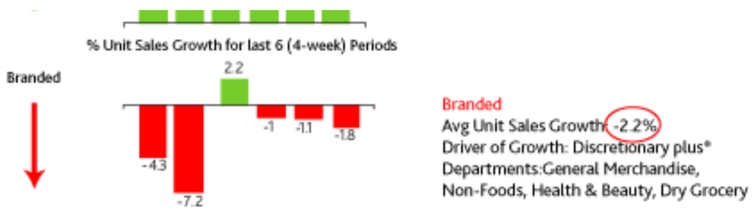
Softness in the most recent measured quarter was driven by price cuts as retailers passed on savings from falling commodity prices (in categories like milk and eggs) and dropped other prices to be more competitive with value retailers. A "watch-out" for 2009 is how these price cuts will impact retailer same-store sales trends. Dollar sales declined overall, but quarterly unit sales showed improvement versus the most recent year in every category except alcoholic beverages, packaged meat and general merchandise.

Killer categories
Back to basics was the rallying cry of shoppers, one supported by unit sales growth patterns. Canning and freezing supplies jumped 18% for the year ending in July 11, 2009. Also posting impressive growth rates were seasonal general merchandise at 8.3%, fresh meat at 6.2%, wine at 5.6%, dry mix prepared foods at 5.2%, pasta at 4.2%, baking mixes at 3.8% and vitamins at 3.7% (nothing like a little self medicating in a down economy).

The brand wagon
National brands still account for the majority of dollar sales, but as in past recessions, store brands are growing at a rapid pace. Retailers have jumped on the house brand wagon, looking to capture a larger share of profits. Nielsen data for the most recent six (4-week) periods ending July 11, 2009 show store brand sales increasing by an average of 5.8%; at the same time, national brands lost 2.2% of sales. Brands sales are showing some resilience in the last four periods as many manufacturers have stepped up their promotional support to negate any further losses.

Consumers Turn to Store Brands In Down Economy—Improved Brand Performance in Recent Periods





*Source: Nielsen Scantrack, a service of The Nielsen Company; (FDM w/ Walmart) 52 weeks ending 07/11/09 (versus prior year). *Latest Quarter.*

Store brand development varies by department, and is particularly strong in the dairy, deli and frozen arenas where the store brand action began. Buyers can anticipate more and broader store brand entries.

Target has reaffirmed its store brand commitment with a huge investment in a refreshed product line renamed “Up & Up”. Both A&P and Kroger have expanded their store brand offerings to target children, infants and toddlers. With Walmart announcing expansion of their Great Value brand, it will be interesting to see if retailers will be able to turn the tide following this recession by showing continued store brand growth. Since a return to consumer normalcy is not likely to come soon, consumers will have lots of opportunities to add more store brand offerings to their regular portfolio of branded goods.

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Recession fundamentals

Back-to-basics is the byword for cautious consumers re-focused on value and values. Savvy retailers are revamping the concept of meal solutions, organizing shopping lists, developing recipes, and creating house brands that respect the value of a dollar while promoting the value of home-cooked, family meals. Premium and discretionary brands will need to meet the challenge of an increasingly demanding shopper base, and give consumers a reason to buy. Collaborative efforts between retailers and manufacturers on store brand and branded assortment, promotions and pricing will be the new norm.

Contact us to learn more.