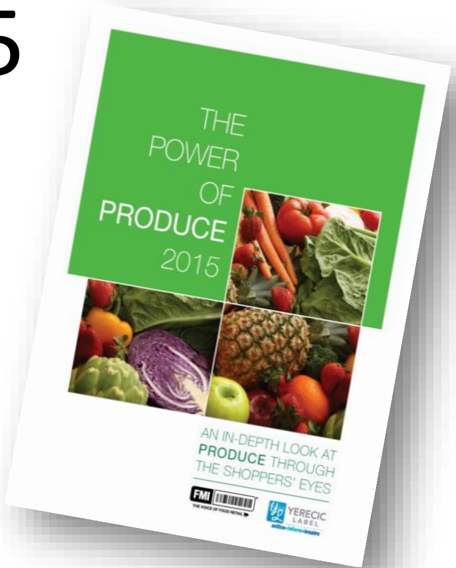
Made possible by:

The Power of Produce 2015

An in-depth look at the produce department through the shoppers' eyes



Presented by:

Anne-Marie Roerink | 210 Analytics

Sherry Frey | The Nielsen Perishable Group

The FMI Fresh Executive Committee

John Ruane (Chair)
Ahold USA

Rick Steigerwald (Co-Chair)
Lund Food Holdings, Inc.

Tom DeVries (Past Chair)
Giant Eagle, Inc.

Jason Anderson
Affiliated Foods Midwest Cooperative, Inc.

Bill Artman
Giant Eagle, Inc.

John Beretta
Albertsons, LLC

Dave Bornmann
Publix Super Markets, Inc.

Scott Bradley
Target Corporation

Jerry Chadwick
Lancaster Foods, LLC

Alex Corbishley
Target Corporation

Chris Darling
Albertsons, LLC

Jerry Edney
Associated Wholesale Grocers, Inc.

Mary Fuhrman
Hy-Vee

John Haggerty
Burris Logistics

Mark Hilton
Harris Teeter LLC

Christopher Lane
Wakefern Food Corporation

Pete Leung
Brookshire Grocery Company

Dan Murphy
Unified Grocers, Inc.

Pat Pessotto
Longo Brothers Fruit Markets Inc.

Jerry Suter
Meijer, Inc.

Geoff Waldau
Food Lion

Blaine Bringhurst*
Price Chopper Supermarkets
Steve Mayer*
Schnuck Markets, Inc.
Nicole Wegman*
Wegmans Food Markets, Inc.

* Silent members

THE VOICE OF FOOD RETAIL
Feeding Families Enriching Lives

The FMI Fresh Foods Leadership Council

John Ruane (Co-Chair)
Ahold USA

Rick Steigerwald (Co-Chair)
Lund Food Holdings, Inc.

Chris Dubois
IRi

Michael Eardley
International Dairy-Deli-Bakery Association

Jim Ethridge
National Cattleman's Beef Association

Sherry Frey
Nielsen Perishables Group

Paul Mastronardi
Mastronardi Produce

Glen Dolezal
Cargill

Jeff Oberman
United Fresh Produce Association

Janet Riley
North American Meat Institute

Tristan Simpson
Ready Pac Foods, Inc.

Tom Super
National Chicken Council

Jarrod Sutton
National Pork Board

Joe Watson
Produce Marketing Association

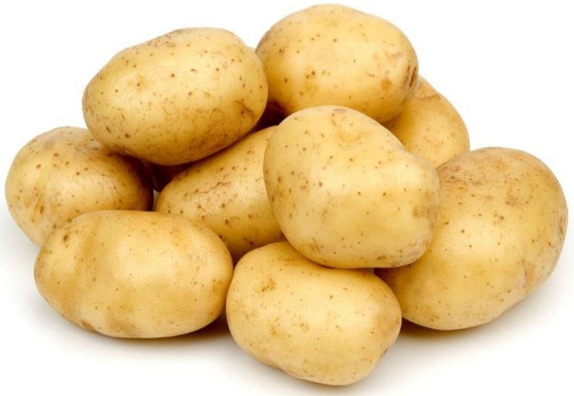
Joe Weber
Smithfield Foods Inc.

Art Yerecic
Yerecic Label

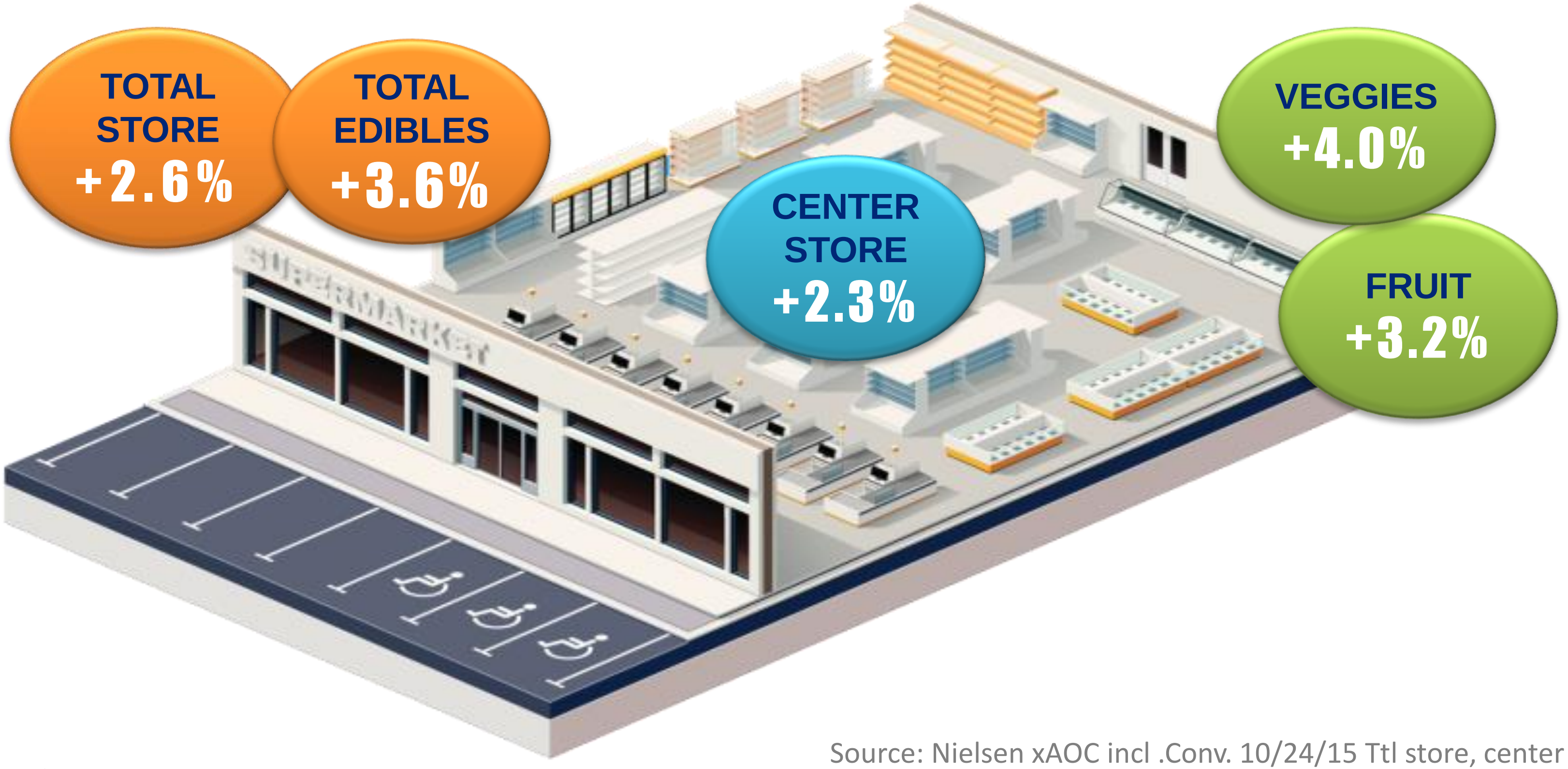
THE VOICE OF FOOD RETAIL
Feeding Families Enriching Lives

The big business of produce

- Differentiation
  Focus on fresh is the most used & effective tactic
- Profitable
  Highest sales per labor hour | Lowest perishable shrink
- Big
  100% household penetration
  45 trips annually | **$320** spend per year
  $63B business
- Growing
  In conventional, organic and value added



Sources: FMI *Speaks 2015* | Nielsen FreshFacts® Historical Projected
Nielsen Homescan TSV 52 wk Panel



Source: Nielsen xAOC incl .Conv. 10/24/15 Ttl store, center store| Nielsen AFP 9/12/2015 edibles , veg, fruit; $ growth

Today’s agenda

MEGA TRENDS	PRE-TRIP PLANNING	PURCHASING DECISION	CHANNEL CHOICE
CONSUMPTION & PREPARATION	MILLENNIAL OPPORTUNITY	PARENT OPPORTUNITY	IMPROVING THE PRODUCE DPT

Local

Organic

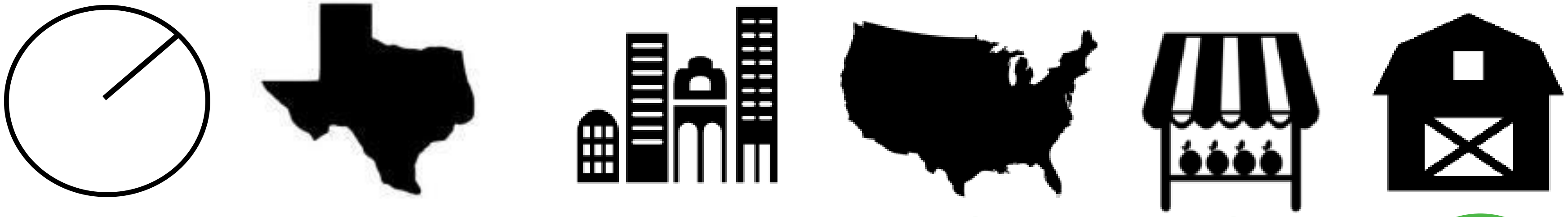
MEGA TRENDS —
THEY INFLUENCE ALL OF US

Local is a game winner

- **48%** buy food items *specifically* for being local
- **Top requested items**: fruit and vegetables
- **Key buying reasons**:
  - Freshness
  - Support of the local economy/farmers
- **58%** are very interested in more local produce items

48%: Source: Retail Feedback Group

So… what is locally-sourced produce?



Radius	State	City/town	USA	Bought at farmers' market	Grown on family farm
26%	25%	23%	18%	5%	3%

Opportunity to self-define based on area/store philosophy

Hyper local

State level


LOCAL (within 100 miles)
BUY LOCAL!
Look for this tag!
NOR-CAL & Nugget
ORGANIC
SALE


SunFed RANCH
With a proud history in Northern California for well over 100 years, three ranching families with deep California roots grow SunFed Ranch Organic Beef, offering certified-organic, grass-fed and grass-finished beef. SunFed Ranch Organic Beef is guaranteed free of growth enhancing hormones and antibiotics. Additionally, each SunFed ranch upholds humane animal care, environmental stewardship by avoiding use of pesticides or fertilizers, and traditional farming methods that harness the sun's energy to carefully manage pastures, resulting in delicious beef that you can feel good about.
Matt Byrne, SunFed Rancher
ORGANIC
LOCAL (within 100 miles)
SunFed Organic Beef
Sacramento, CA
Nugget MARKETS

How about local versus organic?

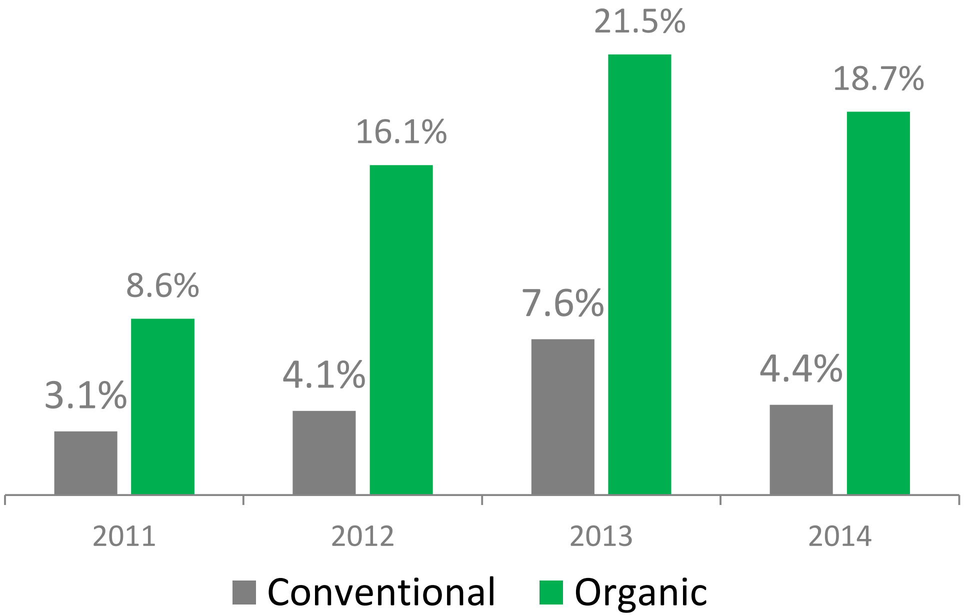
Choice if equal quality; **no price differential**	**8%**	**66%**	**26%**
Farmers market shoppers	3%	81%	17%
Organic shoppers	3%	57%	40%

How about local versus organic?

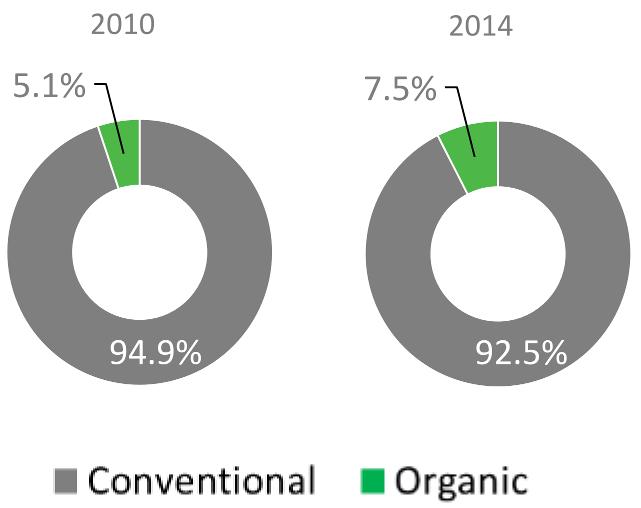
Choice if equal quality; **with price differential**	$1.99	$2.39	$2.99
	31%	**51%**	**18%**
Farmers market shoppers	18%	65%	17%
Organic shoppers	20%	51%	29%

Organic produce continues to expand

Produce $ Growth



Produce Unique Items vs YAGO



Source: Nielsen FreshFacts® FCA 52 Wks ending 8/29/2015

And outpace conventional $ and vol growth

sales growth	Conventional		Organic	
	$	**lbs.**	**$**	**lbs.**
Fruit	+2.7%	+3.8%	+19.0%	+23.6%
Vegetables	+2.9%	+0.2%	+15.3%	+15.0%

Source: Nielsen FreshFacts® FCA 52 Wk ending 9/26/2015; $ growth

Organic produce household penetration surpasses 50%

52%

Purchased in past 3 months

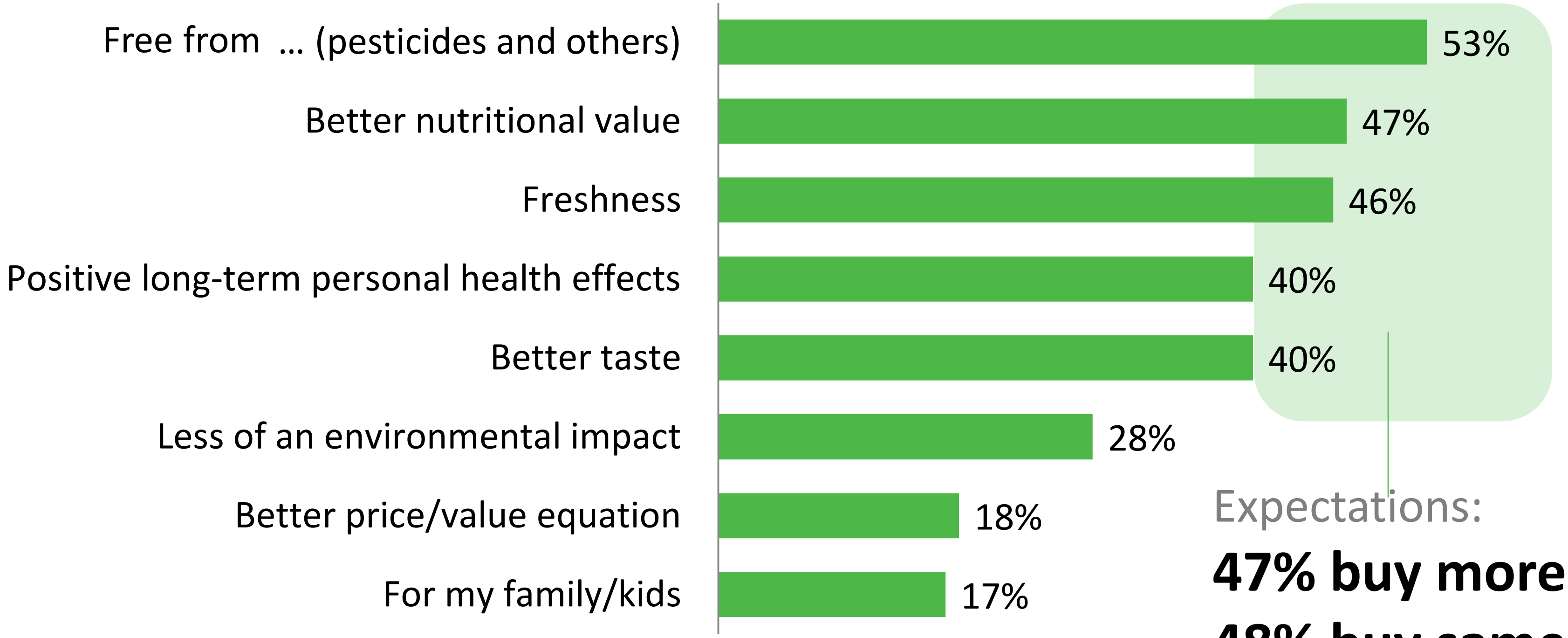
Up from 1/3 in 2009

36%

Don't buy organic produce

- **67%** Too expensive
- **36%** No added benefits
- **15%** No info on benefits
- **13%** Not available
- **11%** Lesser taste

Reasons for purchasing organic produce



Expectations:

47% buy more

48% buy same

Organic produce purchase is fragmented

Primary channel for organic produce

49% SUPERMARKET

19% SPEC. /ORGANIC

16%

10% SUPERCENTER

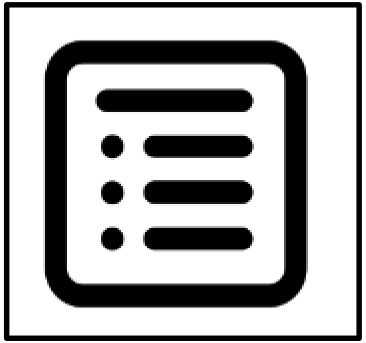
6% WAREHOUSE CLUB

1%

Reaching a tipping point

- Continued organic growth very likely
  - Growing household penetration
  - Growing baskets among current buyers
  - Growth rates have compounded 17%+ for 5+ years

- Retailer decisions
  - Rationalizing conventional and organic items
  - Locking long-term supply



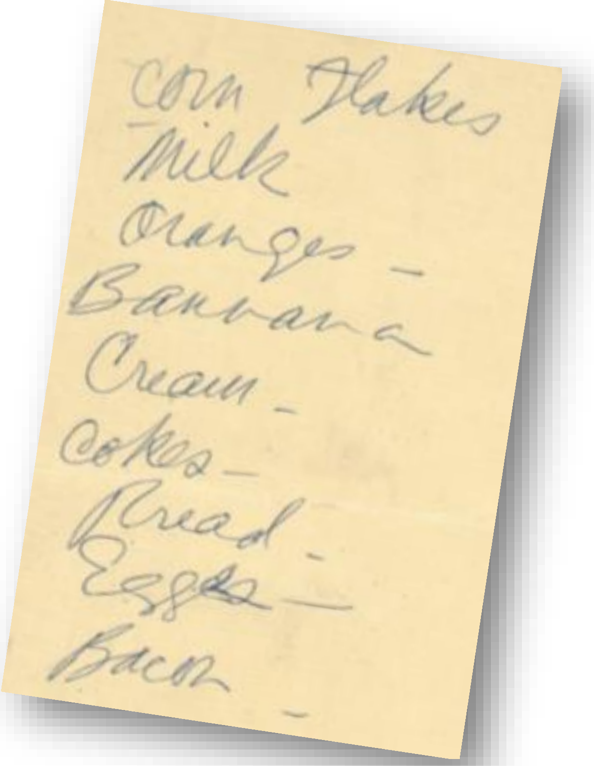
List preparation
Promotional research
Circular trends
Impulse opportunity

PRE-TRIP PLANNING—
WELL-RESEARCHED LIST ITEMS

A well-researched list item

>7 in 10 shoppers list produce

- Shoppers are 2x as likely to list specific items vs. generic need for fruit and/or vegetables
- 6 in 10 shoppers compare promotions across stores

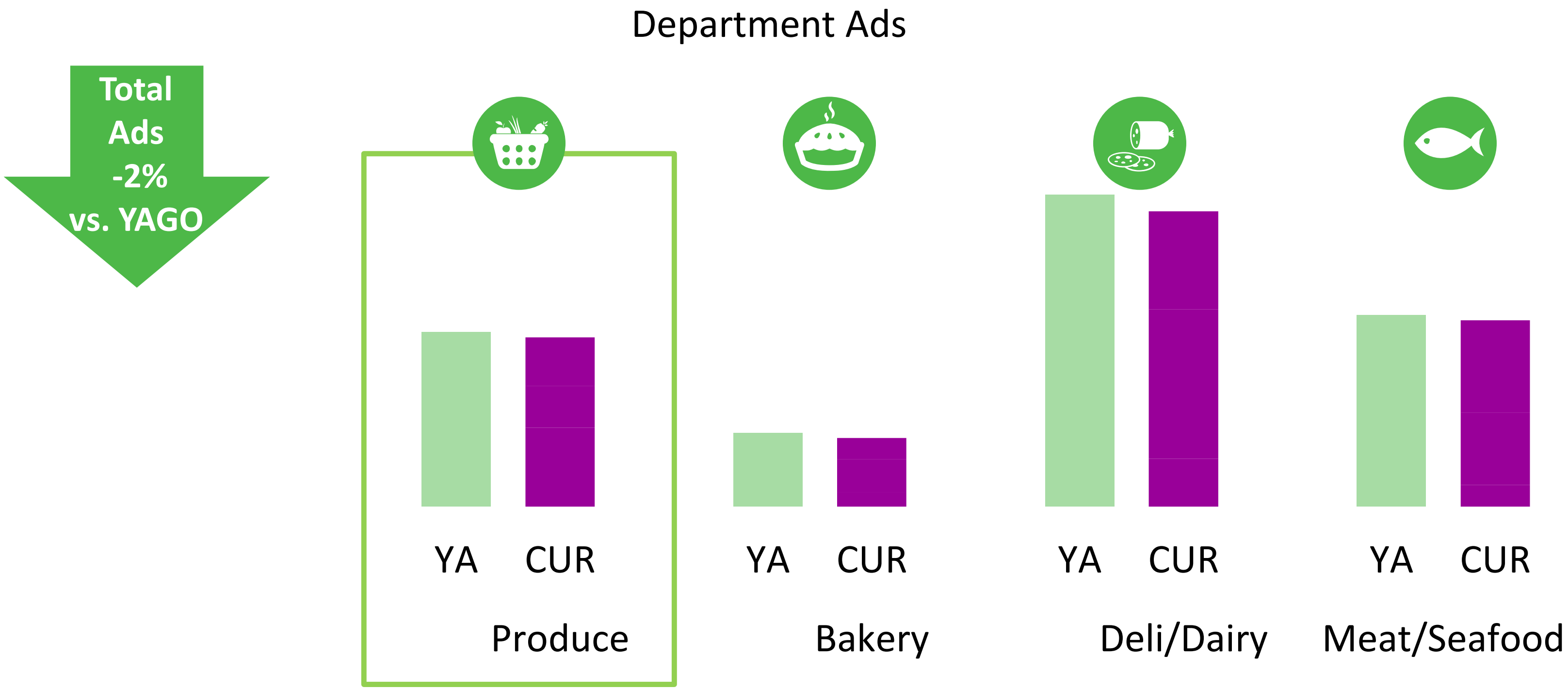


Paper circular has staying power

Use when researching produce promotions

Paper circular at home	73%
Paper circular at the store	42%
Electronic circular on website	28%
Email specials	17%
Website specials	13%
Store app	12%
Social media specials	7%

However, ads declined across departments

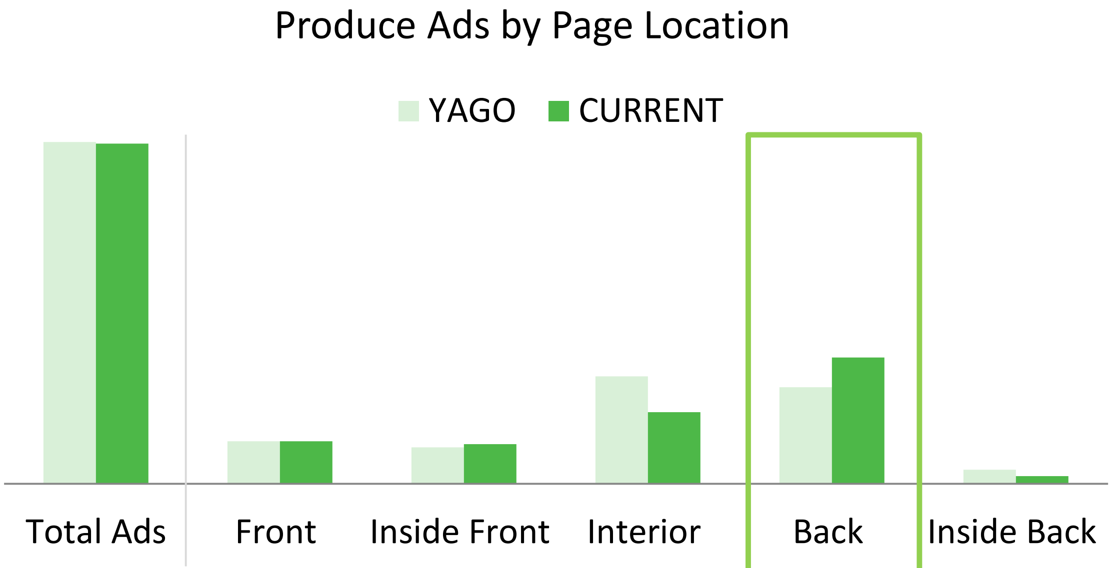


2015 Market Track Trip Drivers Survey/ FeatureVision 52 we 11/16/2015

Circular strategies are shifting

80% of shoppers use print circulars to plan their shopping trip

FRESH FRUIT is the **#1** product shoppers will most likely buy if featured on sale during a typical week



	Total Ads	Front	Inside Front	Interior	Back	Inside Back
Growth:	-0.5%	+0.5%	+8.5%	-33.3%	+30.7%	-46.9%
% Share:	100%	12.5%	11.7%	21.0%	37.1%	2.2%

2015 Market Track Trip Drivers Survey/ FeatureVision 52 we 11/16/2015

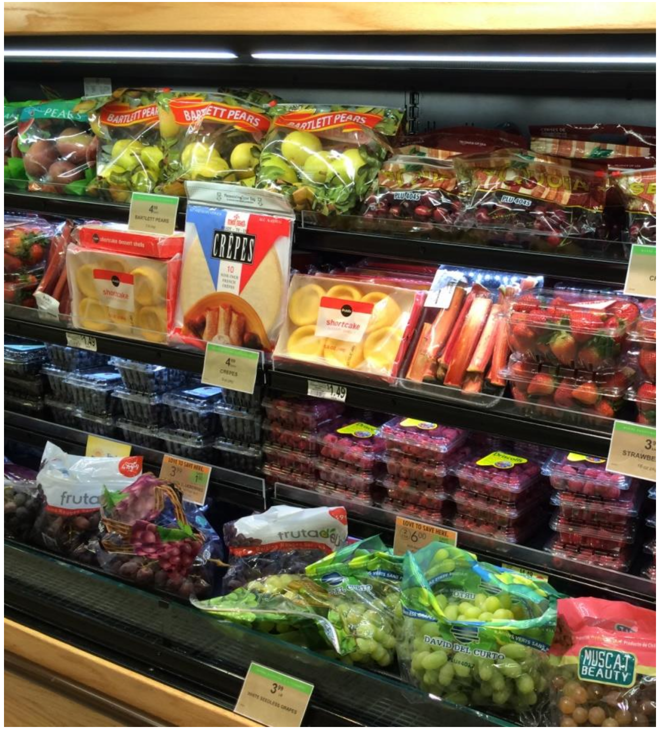
In addition to planned list purchase, produce offers ample opportunity for impulse

Frequency of buying unplanned produce items

23%	34%	34%	6%
Almost always	Frequently	Occasionally	Hardly ever/ Never (stick to list)

57% impulse opportunity, especially among Millennials (64%)

Cautiously cross-merchandising in produce....



Bringing produce into the store

- Room for ‘art’ in impulse
- Cross-Merchandise

Hy-Vee
- *lemons on front display*


Publix
- *banana & orange endcap*

Price Chopper
- *avocados in snack aisle*


Giant Eagle
- *veggies in meat case*

Jewel
- *lemons near seafood case*

Produce department's top connections

IN DEPARTMENT PRODUCE CONNECTIONS

Most Heavily Connected

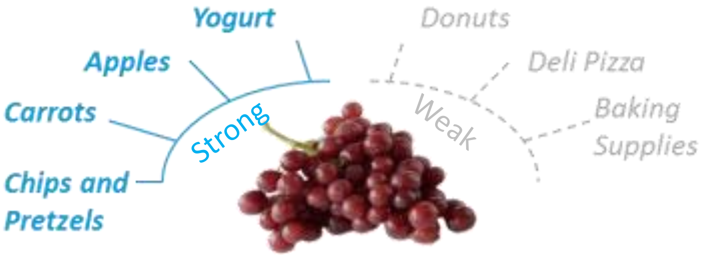
Potatoes
Onions
Bananas
Grapes

Strong sales connections to:
10+ departments
120+ categories

Connected to
more than half of
total store sales

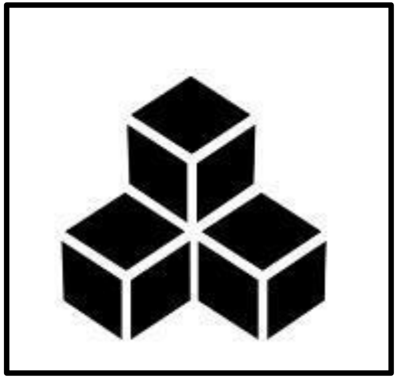
GRAPES ARE A TOTAL STORE HERO

Grapes are strongly
connected to
117 Categories



$2.5 Billion

Purchasing decision tree
Understanding the importance of price
Department experience
Out-of-stocks
New item introductions
How-to service



PURCHASING DECISION—
FRESHNESS > PRICE

Appearance and price go hand-in-hand

- Price helps shoppers decide on items and stores
  - Once in-store, the impact of price lessens
  - Especially among those who list specific items
  - Emphasis on quality, freshness, ripeness, variety and in-stock
- Yet, 6 in 10 every time/frequently compare prices between items
- **Best prices without execution may result in lost customers**

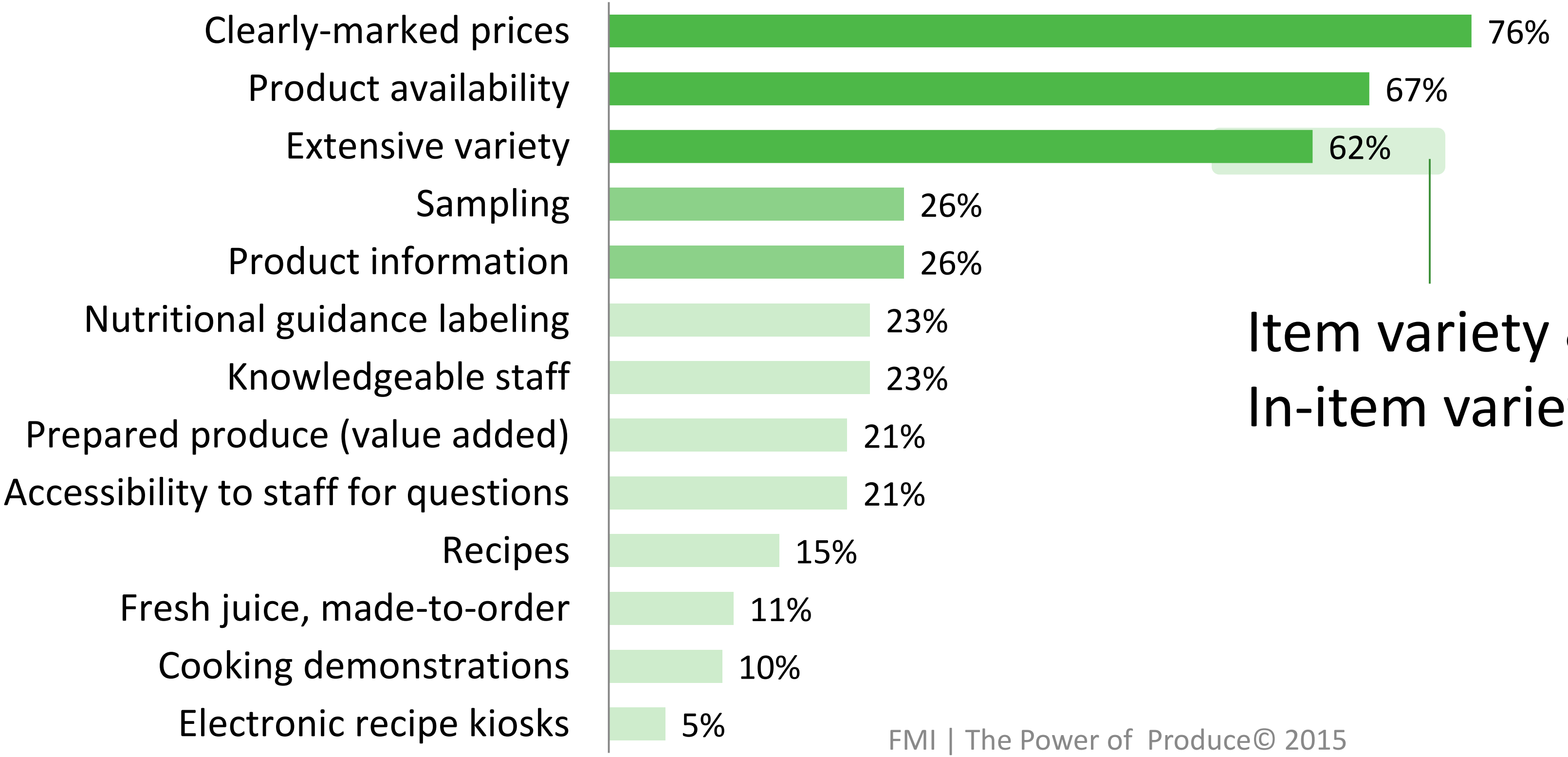

T&D WILLEY FARMS
FRESH PRODUCE
California Premium Mandarins
GRAPEFRUIT
4.99
BOSC PEARS
1.99
COMICE PEARS
2.49

Execution is key in achieving operational excellence

Eye-catching Displays

Solutions

Providing a good experience



Item variety &
In-item variety

The role of new items

Importance of frequently introducing new produce items

24% Very important

- Ages 29-39
- Organic shoppers
- Working full time
- Shoppers w/ kids

44% Somewhat important

28% Not too important

5% Not at all important

Categories are shape shifting, leading to an explosion of new items

Produce Unique Items
per store per week

+3.5%
vs
YAGO

PORTABILITY

CONVENIENCE

SMALLER FORMATS:
PACKAGING, FRUIT SIZE

HEALTHY SNACKING:
ON-THE-GO AND ACCOMPAINMENTS

KITS:
EASIER MEAL PREP

KID FRIENDLY

CONVENIENCE:
NEW PACKAGING

MERGED PRODUCTS

SMOOTHIES & JUICING:
EASIER TO CONSUME

INNOVATION

Source: Nielsen FreshFacts® FCA 52 Wk ending 9/26/2015; $ growth

Example of new item incrementality

- Snacking
+7.6%

- Regular
-1.1%

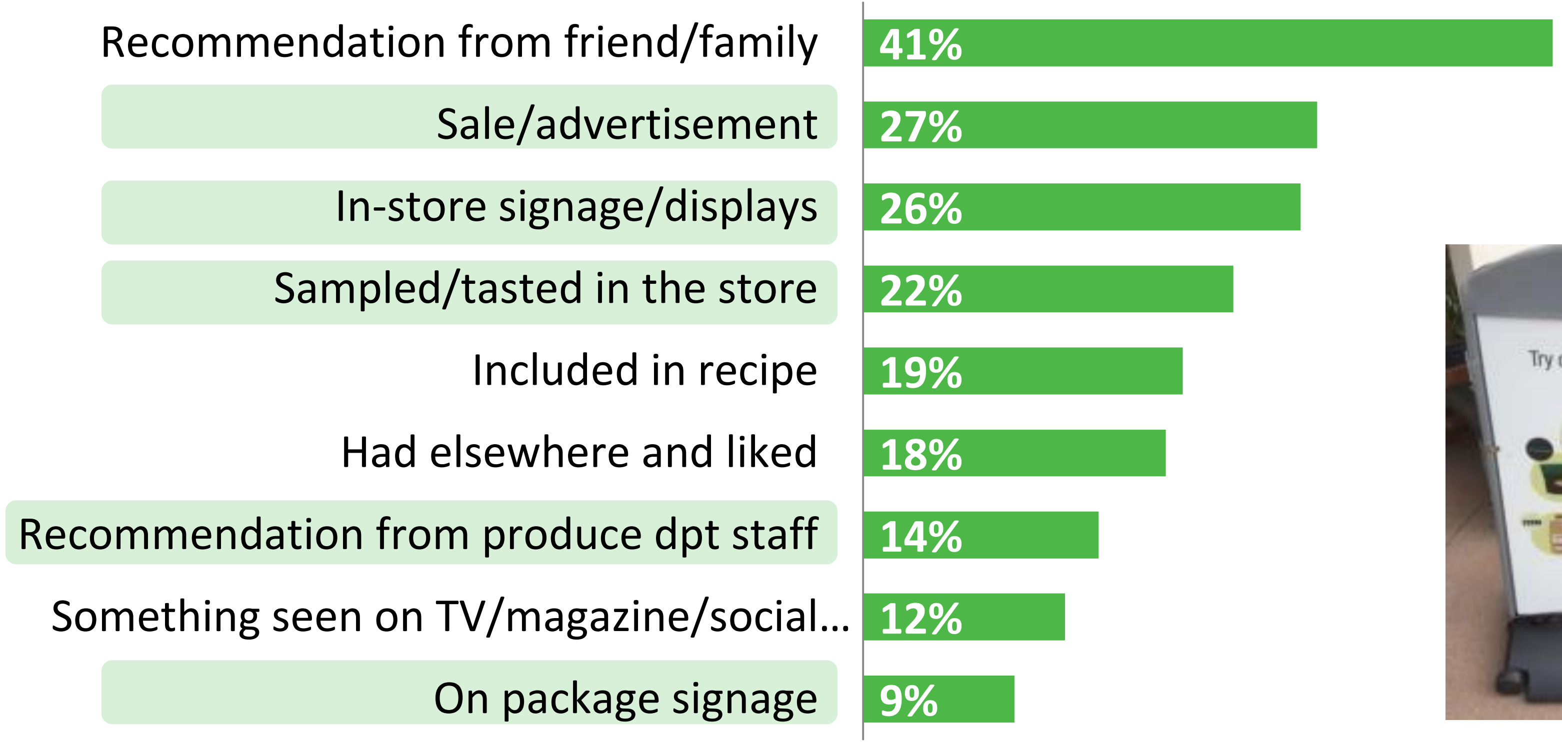
- VA-Meal Prep
+12%

	Snacking	Regular	VA-Meal Prep
2010 sales:	$776M	$2.4B	$5.7M
2014 sales:	$1.1B	$2.3B	$9.0M
$ growth:	+264M	-$107M	$3.2M

Net +$160M

Nielsen FreshFacts® Historical Projected

Prompting new item trial



Bring on the recipes, ideas and how tos!

Likelihood of using retailer provided recipes, ideas, and how to instructions

41% Would absolutely use

- Shoppers w/kids
- Organic shoppers
- Millennials and X-ers
- Working full time

49% Maybe

10% Wouldn't use it

Pictures by Yerecic @ ShopNSave


SUNSET
PEEL. TIRER
Campari®
TOMATOES TOMATES
THE TOMATO LOVER'S TOMATO™
GREENHOUSE GROWN • CULTIVÉES EN SERRE
1lb (454g)
Scan QR code for info
Scannez le code 2D pour info
PRODUCT OF CANADA / PRODUIT DU CANADA
MPL, KINGSVILLE, ON, N9Y 2E5 • SUNSETGROWN.COM

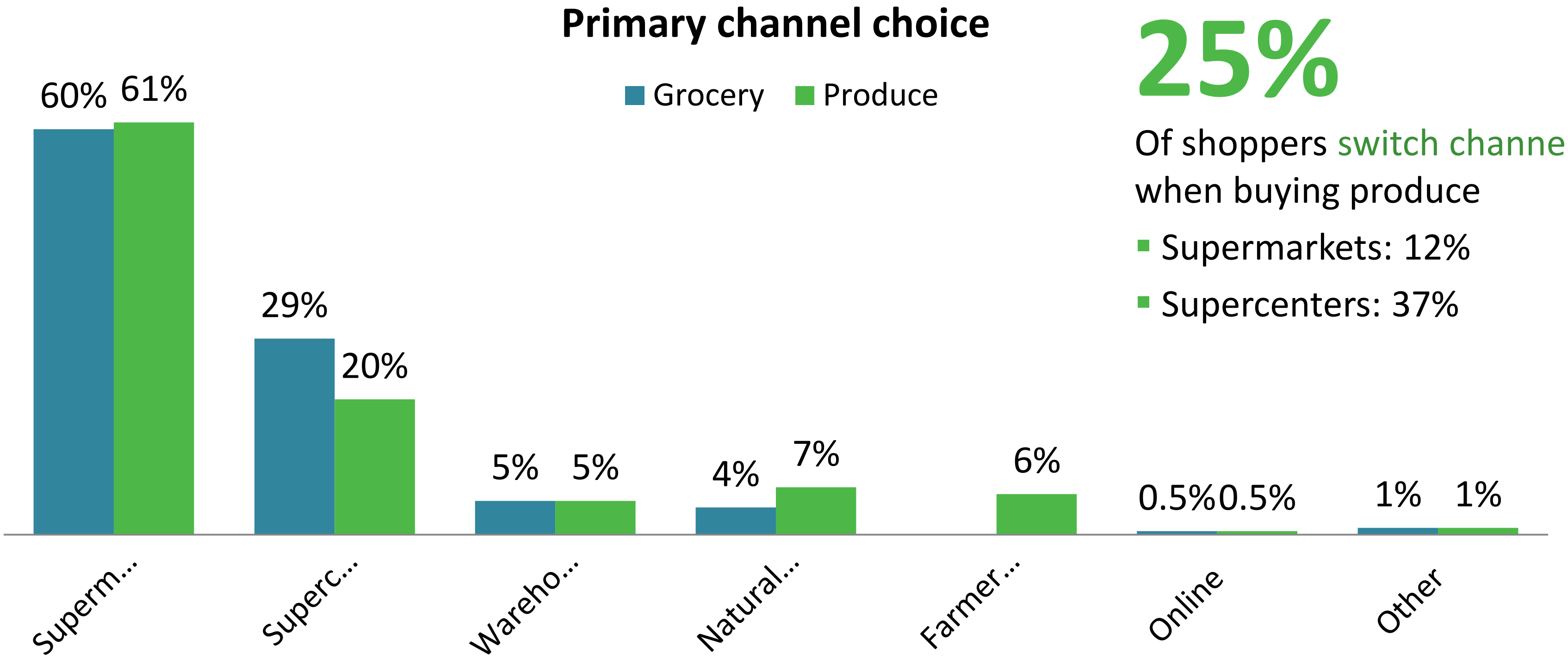

H-E-B
Texas Ranch
Soup Kit
CHICKEN BREASTS WITH RIB MEAT SEASONED FOR FAJITAS
Makes 6 cups of soup
For Soup: Just add Butter, Olive Oil, Milk and Water
or also makes 5 cups of casserole!
MADE IN TEXAS
NET WT. 30 OZ (1 LB 14 OZ) 851g
BEST BY


2.99
WOW SEEDLESS WATERMELON
0000422823
45606801
LOT TAG

Primary channel
Channel switching
Occasional purchase
Alternative channels
Farmers' markets

THE CHANNEL CHOICE—
TRADITIONAL POWERHOUSES & ALTERNATIVE CHOICES

Produce is a supermarket stronghold



25%

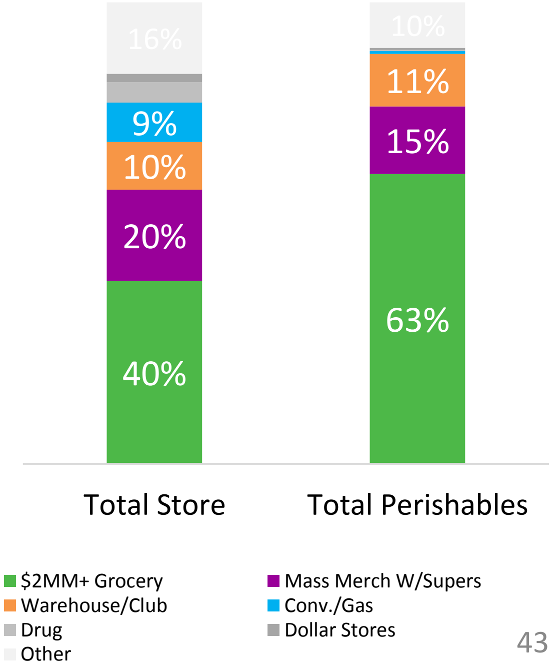
Of shoppers switch channels when buying produce

- Supermarkets: 12%
- Supercenters: 37%

Produce is a supermarket stronghold

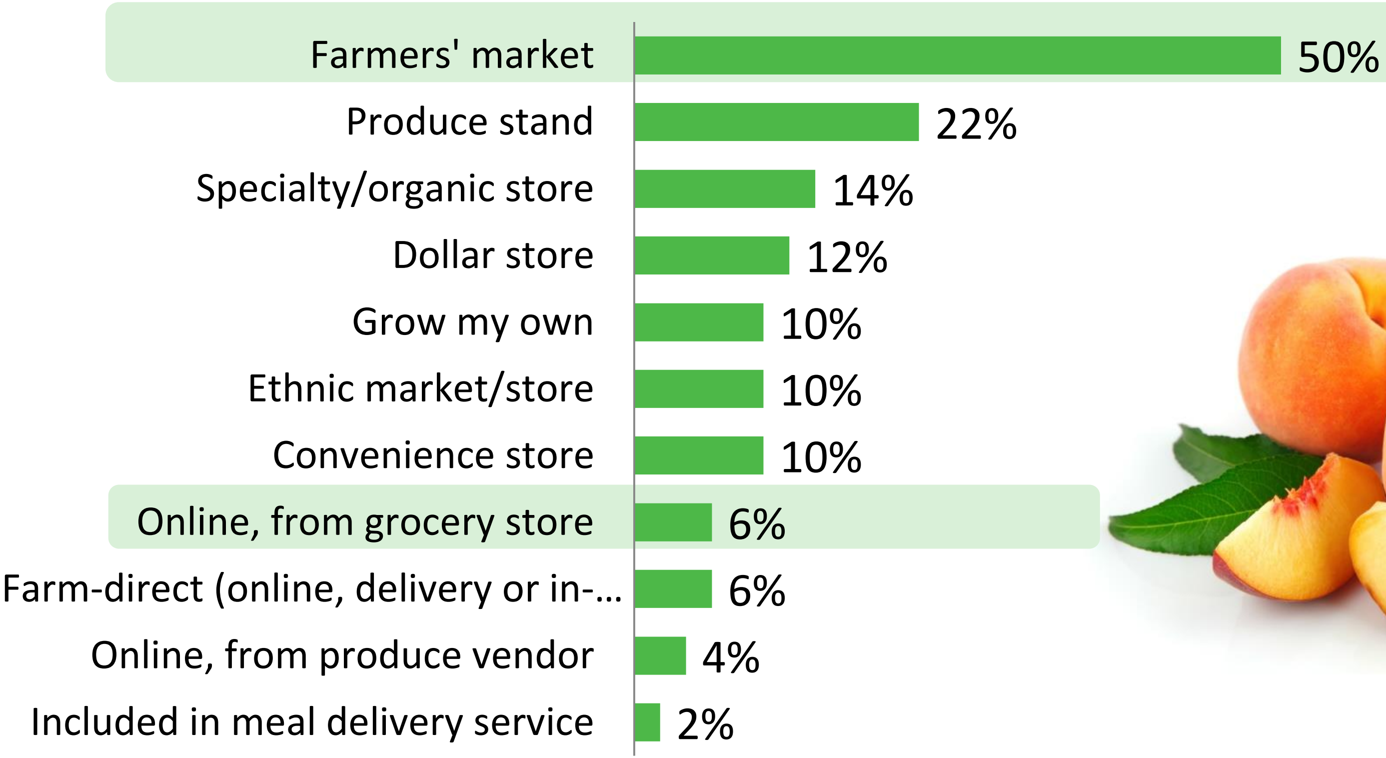
Share of channel shoppers purchasing fresh within each channel

% Department Dollars by Channel
to Total U.S.



Source: Nielsen Homescan TSV 52 wk Panel

Farmers' markets greatest source of the occasional purchase



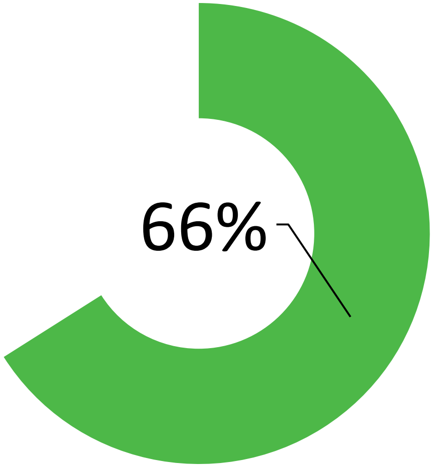
Farmers' markets

0% Primary store
6% Primary produce destination
26% Secondary produce outlet
50% Occasional produce purchase
16% Primary outlet organic produce

8,300 and growing!

Trip mission

Trip mission for farmers' market visits = buying produce



Why the extra trip?

Reasons for purchasing produce at farmers' markets


Mandarins
$2.50lb
SEEDLESS
AWESOME
UGLY
BUT
SWEET


FRESH
VEGTABLES
SERVED
HERE


ORGANIC
POTATOES
WITH DIRT
$2/lb
JOHNSON'S BACKYARD GARDEN

Bringing a farmers' market feel

- Explain "fresh"
- Leverage local
- Bring the fun!
- Tell the item's story
- Share the facts

Picture by Yerecic @ Giant Eagle

Bringing the farmers' market to the store

Pictures by Yerecic @ ShopNSave and Lowes Food

Bringing the farmers' market to the store

Consumption frequency
Meal occasion trends
Value-added produce
Prompting new item trial

MEAL CONSUMPTION & PREPARATION

98% Household penetration, but ample opportunity to grow produce basket

Frequency of consuming fresh fruit/vegetables

Sometimes
24%/27%

Frequently
68%/65%

Lower-than-average consumption

- Men
- Lower income
- Millennials

The dinner occasion

4.0 home-cooked dinners with fresh produce/week

4.8 Higher income
4.9 Specialty store shoppers
4.4 Buy organic produce
4.3 Households with kids 0-6
4.2 Shoppers ages 29-39

Produce snacking sees healthy growth

Share of snacking product dollars across the store

Top 10 -
Percentage of consumers who ate these snacks in the last 30 days
(North America)

1. CHIPS/ CHRISPS	63%
2. CHOCOLATE	59%
3. CHEESE	58%
4. COOKIES/ BISCUITS	56%
5. FRESH FRUIT	**55%**
6. BREAD/ SANDWICH	48%
7. CRACKERS/ CRISP BREADS	48%
8. VEGETABLES	**44%**
9. PEANUT BUTTER	44%

Source: Nielsen Perishables Group Advance Fresh Perspective, 52 Wks Ending 6/27/2015|Nielsen Global Sr

Smoothies & juicing are hip

Current

33%

More often vs. 2 yrs ago

28%

Current

13%

Organic shoppers
Families with kids
Millennials
Women

Organic shoppers
Families with kids
X-ers
Women

Value-added growing rapidly

Chopped | Cut | Halved | Hearts | Microwave-ready | Snack packs

+10.3% growth in $ sales vs. **5.5%** for unprepared

Buy?

46% Sometimes/regularly

8% Only when in a time crunch

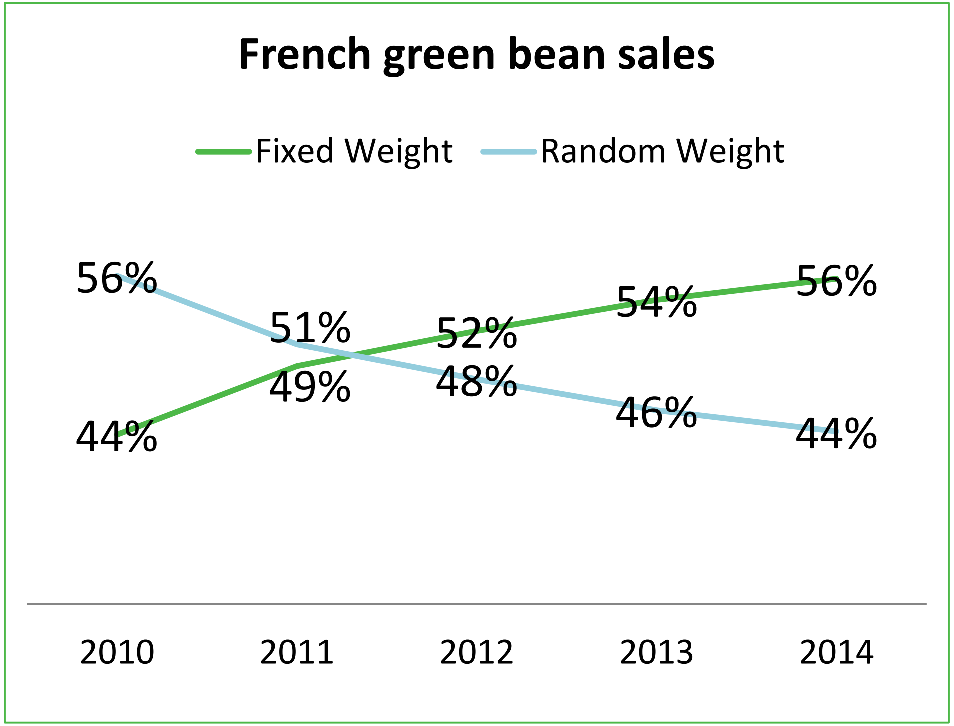
6% Only for special occasions

38% Hardly ever/never

- 17% Cost
- 15% Prefer to do it myself
- 8% Other

Sources: Nielsen FreshFacts® Historical Projected; Annual $ growth

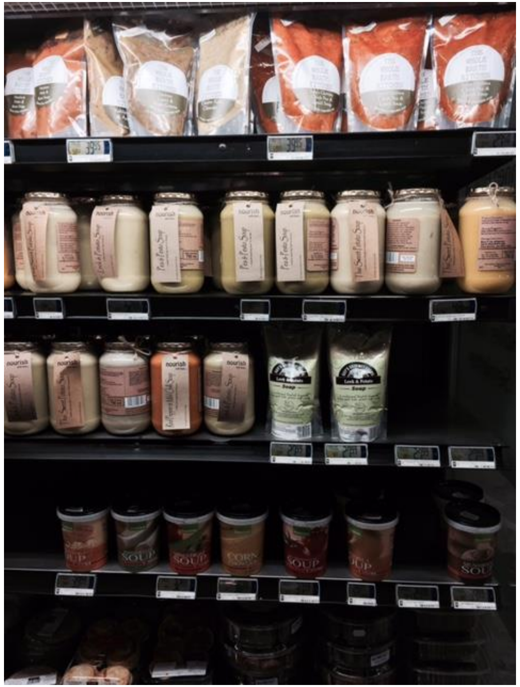
Packaging innovation



Nielsen FreshFacts® Historical Projected

Growth in meal preparation solutions

- Grab & go kits



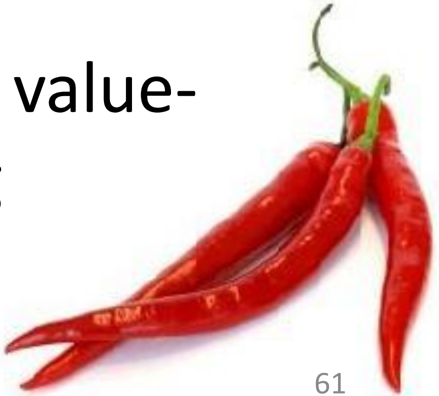
- Refrigerated, ready-to heat sauces/toppings

- Soups

Y THE MILLENNIAL OPPORTUNITY

Millennials approach produce differently

- Research: more likely to use digital sources
- In-store: more susceptible to impulse & new items
- Decision: Less about appearance and variety, but more about price, habit and prep time
- Purchases: Driving new growth in organic, value-added, juice/juicing and produce snacking



Millennials' take on a good experience

What drives a good produce department experience?

63%	Product availability	78%
62%	Extensive variety	70%
34%	Product information	20%
31%	Sampling	18%
28%	Accessibility to staff to ask questions	19%
25%	Recipes	9%
13%	Cooking demonstrations	5%
8%	Recipe kiosks	1%

Juicing/smoothie ideas

Cooking classes

Meal stations

Product info

How to videos

Value added

Cooking demonstrations

Recipes

Sampling

Nutrition info

Meal ideas

Millennials are heavy perimeter store consumers and look for coupons

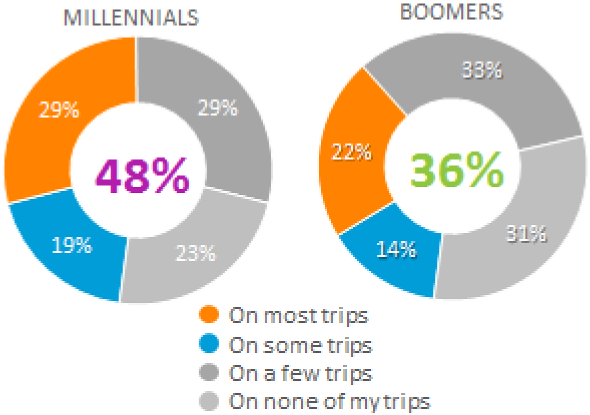
- Price Sensitivity

Price - top motivation for switching stores

	Millennial	Boomer
COUPONS	83%	
STORE CIRCULARS	68%	
VISIT STORE WEBSITES	30%	19%
DOWNLOAD COUPON W/ STORE APP ON PHONE	31%	11%

- Heavy Perimeter Store Consumers

SLOW GROWTH IN CENTER STORE



Source: Nielsen's Millennials – Breaking the Myth report (2014)

THE (NEW) PARENT OPPORTUNITY

The healthy eating challenge

Many parents struggle with having their kids…

	Big	Somewhat
Eat a healthy diet in general	33%	38%
Eat sufficient fruit/vegetables	26%	41%
Learn to make healthy food choices	25%	39%

Big | Somewhat
of a challenge

Parents see produce as the healthy shortcut

- Above-average interest in:
  - Fruit/vegetable recipes
  - New produce items
  - How tos
  - Produce snacking
  - Smoothies/Juicing
  - Convenience

PUBLIX babyclub


HEALTHY SNACK ZONE!
sale!
2/$5
sale!
2/$5
HEALTHY SNACK ZONE!
sale!
sale!


Bananas 59¢
oranges 79¢
Apples 79¢
Washed and Ready to Eat!
$3.99

Retailers creating health snacking centers

- Smaller portions for kid lunches

Power Your Lunchbox Pledge™
by Produce for Kids®

- Healthier school lunch movement

- Don't forget about HH's without kids!

Department score card

Shopper suggestions on improvements

IMPROVING THE PRODUCE DEPARTMENT

Our report card

Strengths

Quality

Freshness

Cleanliness

Value for money

Average

Promotional pricing

Variety (in general)

In-stock performance

Everyday pricing

Weaknesses

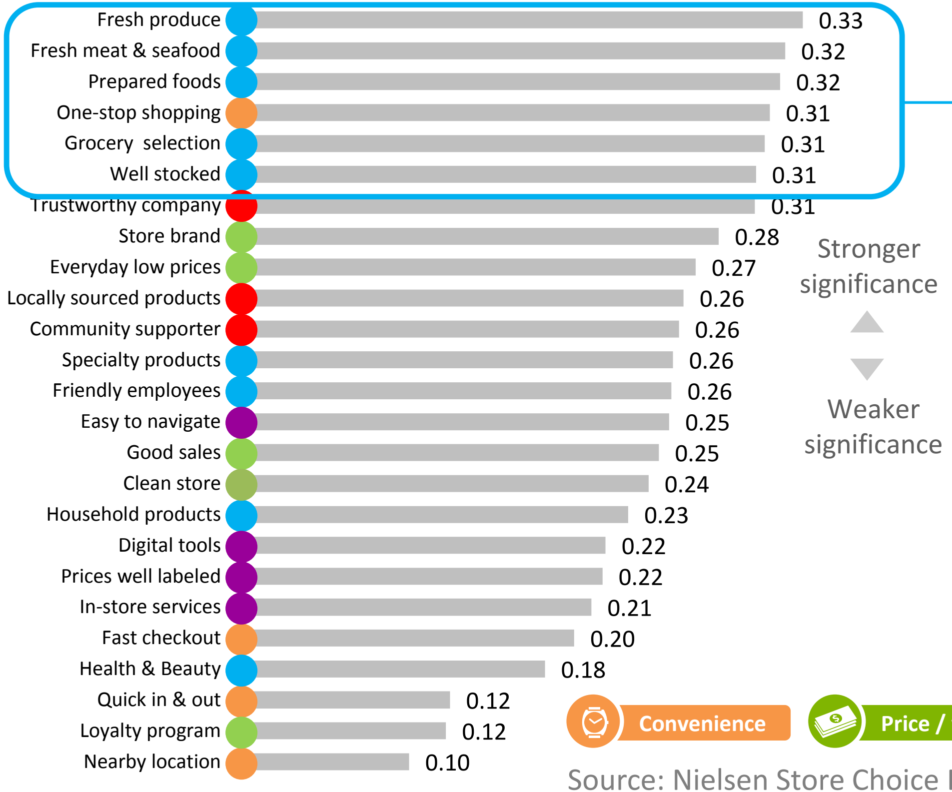
Helpful/knowledgeable associates

Variety (specialty items)

Helpful information

Equity drives loyalty

Derived Importance: Total Respondents (correlation)



Convenience | Price / value | Assortment | Environment | Social value

Most influential:

Assortment & Fresh Foods

To improve **shopper equity**, **retailers** need to consider the relevance of:

- ✓ Well-stocked fresh foods/center store
- ✓ Quality prepared food options
- ✓ Convenient one-stop shopping
- ✓ Trustworthy company

Source: Nielsen Store Choice Drivers Report

Activate now

- Leverage new ways to connect with shoppers pre-trip and new ways to drive impulse through merchandising; define fresh with produce
- Recognize the new competitive set outside of the store and leverage produce to rethink total store connectivity
- Evolve with mega food trends (snacking, meal occasions, health and wellness) to maintain relevancy
- Isolate, understand and target consumers like never before; market to the individual not the masses

Report/slides

- www.fmi.org/store/
- Presentation available

- For questions or additional information
  - aroerink@210analytics.com
  - sherry.frey@nielsen.com
  - rstein@fmi.org

thank you!