

The American Pantry Study

New competition enters the market – Will consumers choose you ?

Without question the recent recession has changed the way consumers go to market. Impulse shopping is down; frugality, price-value trade-offs, the search for value across multiple channels, and careful analysis of needs vs. wants dominate the new economic culture.

In 2010 we launched the inaugural American Pantry Study as a collaborative effort between Deloitte and Harrison Group designed to quantify these changes in consumer behavior and provide packaged goods executives with a sophisticated understanding of the consumer and ways to compete in this environment.

Before embarking on the 2011 version of the American Pantry Study, we reflected on the evolving industry dynamics and challenges that consumer product companies face. In speaking with consumer product executives across the food, beverage, and household goods industry sectors, three challenges were consistently raised. First, the challenge of maintaining – or even growing – market share of national brands in the face of increasingly competitive store brands and consumers more willing to trade down. Second, the challenge of managing profitability as consumers seem more price-sensitive, deal seeking, and open to shopping across channels to save. The third industry challenge we heard from consumer

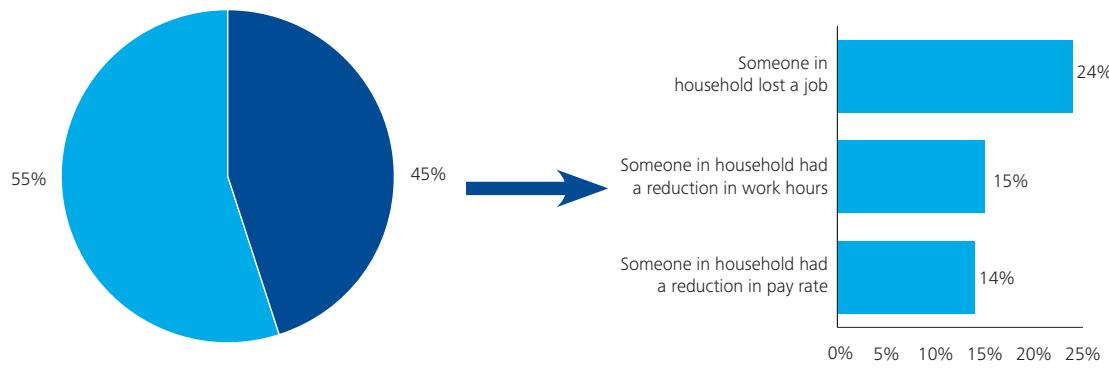
product executives was the need to develop a targeted portfolio of “good, better, best” brands and products targeted across a range of price points and corresponding consumer incomes. Likewise, consumer product companies have been revisiting the product categories they compete in based on the category dynamics and the strengths of their brands.

With this in mind, we conducted The 2011 American Pantry Study where you will find a rich analysis of the reasons people buy, the risks they are managing and the ways they have changed. Furthermore, this report takes an in-depth look at how to win in a fundamentally changed consumer marketplace paradigm. The 2011 study includes consumer attitudes and behaviors, an assessment of brand strength, a closer look at evolving shopping strategies consumers are using, and the impact of emerging technologies like mobile and social.



The national economy and today's shopper

Almost half of America has felt the pain of the recession directly



■ No income reduction, just felt should be cutting back
■ Had a direct loss of income

Data shown among the 92% of consumers who have made a change in their shopping practices.

Still staying resourceful...

	2011	2010
I have become a more resourceful person	89%	89%
I'm getting a lot more precise in what I buy	86%	84%
I am looking closely at every spending category to see where we can save	85%	84%

...91% believe we are in a recession and 76% of those believe it will last more than a year

“I watch my money more carefully and I am much more aware of ways to save”

– Consumer interviewee

“I would love the economy to go back to the way it was, because I learned a lot about ways to save more”

– Consumer interviewee

The new normal – accepting sacrifices made

	2011	2010
Even if the economy improves, I will remain cautious and keep my spending at its current level	93%	93%
The American economy has fundamentally changed, this is the new normal	80%	N/A
Even though I'm spending less on products now, it doesn't feel like I'm sacrificing much	70%	65%

“I am embracing where I am now”

– Consumer interviewee



Consumers are gaining efficiency

- Consumers are simplifying by focusing on tactics and channels that work for them, and then staying focused on a more limited brand set.
- Likely making it increasingly difficult to break into the mix for new brands.
- Increasing importance for companies to identify unique buying segments and focus on serving them well.

	2011
Am getting more precise in what I buy	86%
I am more efficient at getting in and out of the store	80%
I am a lot smarter of a shopper than a year ago	75%

Consumer coping strategies



The impact of the recession lingers and resourcefulness lives on. A new normal lives on where consumers have accepted the sacrifices made and developed coping strategies

Prioritization of "Must Have Brands"	A small set of brands that make consumers feel like they are not compromising. Must have brands are a signal that things are okay.
Planning and preparation	Greater decision-making takes place prior to entering the store and supports efficiency getting through the store and shopping across channels. It implies a need for a more comprehensive relationship strategy than done in the past.
Sorting through deals and promotions	Deals are an expectation; however, deal delight is diminishing. Deal presence is more important than the magnitude. Promotional pursuits should be targeted to each unique consumer segment.
Store brand experimentation	Many consumers have experimented with store brands to the extent they are interested and defined which ones work and don't work for them. Branding evolution of private label could reengage customers in new trial of products.
New technology options	Efficiency meant quick shopping trips before the recession versus efficiently selecting shopping tactics to save. Now mobile and social technology is making it even easier for consumers to reap the rewards of saving tactics.

Consumer coping strategies

Strategy 1: Prioritization of “Must Have Brands”

The recession caused many consumers to re-evaluate their brand relationships to decide which were truly "Must Have's" and which were "Downgradeable"

	2011	2010
Going through these economic times has caused me to realize which brands I really care about and which ones are less important to me	80%	75%

Pre-Recession model



I used to buy X national brand of napkins. Ultimately, it's just going in the trash anyway, so who really cares if it's the most soft?

— Consumer interviewee

Recession-Proof model



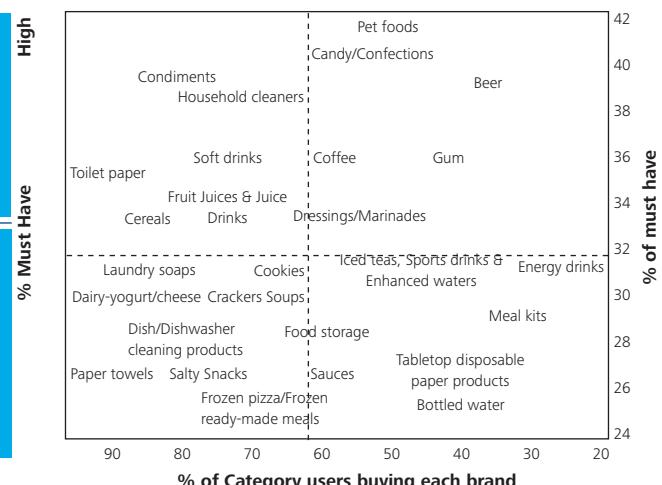
The commoditization of “Everything else” has enormous implications

Quadrant interpretation on the "Must Have Brand" maps

We mapped brands into 4 quadrants – each with specific implications and representative characteristics for brands and their position

Powerful brands	Targeted favorites
<ul style="list-style-type: none">High penetrationStrong return on marketing investment. Less need to promote	<ul style="list-style-type: none">Lower penetrationGood return on marketing investment. Franchise buyer management key
Interchangeable brands	Price to value brands
<ul style="list-style-type: none">High penetration, but willing to trade to other brands on priceShelf strategies critical	<ul style="list-style-type: none">Low penetrationMarketing investment not creating return on loyaltyStore brand competition

High Purchased past six months



Consumer coping strategies

Strategy 2: Planning and preparation in advance



- Greater decision-making takes place prior to entering the store and supports efficiency getting through the store
- Need for a more comprehensive customer relationship strategy than in the past.
- Use of smartphone shopping-related applications pre-store and in-store is rising. Activities include planning a shopping list, accessing coupons, researching products, and participating in loyalty programs²

	2011
Share of times the brand is decided prior to entering the store • Average across all of the brands covered in the study	67%
Deciding what I will purchase when I am at the store	10%

² Will smarter phones make for smarter shoppers? Survey conducted May 2011 smartphone users, n=705, Survey conducted May 2011, Deloitte LLP

Consumer coping strategies

Strategy 3: Sorting through deals and promotions

Deal Delight Diminishing?

With so many items on deal, consumers are becoming less special and the emotional appeal is declining. Deal hunting is still fun, but less exciting.

	2011
Share of items estimated to be bought on sale during "stock up" shopping trip • 30% estimate more than 70% of their items are on deal	50%
Savings and deals just aren't as exciting anymore because they are so common	33%
It's fun to see how much money I can save by using coupons or my shopper loyalty card	80%
I am disappointed when I discover that a brand I recently purchased is on sale at another store	69%

Deal presence can be more important than magnitude

Shoppers are often more focused on getting a deal than the magnitude of the deal during our shop-alongs.

	2011
I have a set of brands in mind that I will consider and purchase whichever one is on deal	83%
I plan my shopping trips around when I know products will be on sale	66%

“I won’t pay full price unless it is absolutely necessary”

– Consumer interviewee

“As long as I’m getting a deal, I know that I’m saving at least some money. It’s all a bonus – money I keep in my pocket”

– Consumer interviewee

Consumer coping strategies

Strategy 4: Private label increasingly, "Been there, done that"



"I have tried different store brands. At this point, I know which ones my family will accept and which ones they won't"

– Consumer interviewee

- Many consumers have experimented with store brands to the extent they are interested and defined which ones work and don't work for them
- Commitment to branding evolution of private label may be needed to reengage customers

	2011
Feel I have figured out which store brands work for my family and which don't	90%
Have experimented and figured out which store brands are good and which are not so good	88%
Have found several store brands that are just as good as national brands so I can save money without giving up anything	87%

Some private label remorse

- While customers have settled in on store brands, there is a clear (and potentially growing) minority who may be tired of compromising

	2011	2010
It bothers me that I can't afford to always buy the brands I'd like to	53%	49%
I intend to purchase more national brands instead of store brands as the economy improves	35%	32%
I often feel that I am sacrificing when I purchase a store brand instead of a national brand	34%	32%

"There is a little sacrifice with some of the store brands we need to purchase. At some point it will be nice to go back"

– Consumer interviewee

Consumer coping strategies

Strategy 5: Substantial appetite for new technology options



% Extremely or Very Interested	All consumer respondents (n=4086)	Age			
		21-29 (n = 680)	30-44 (n = 1445)	45-59 (n = 1316)	60-70 (n = 645)
Scanner guns that you use to scan items you place in your cart and allow you to use self check-out	28%	38	33	23	16
Coupons sent to your mobile phone that you can scan at check out	25%	43	33	15	5
Using a smart phone to download coupons	22%	38	30	13	4
Using your mobile phone to scan items you place in your cart that allows you to use self check-out	21%	36	27	14	7
Using a smart phone to compare prices	21%	38	28	13	5
Using a smart phone to identify sales	21%	37	28	13	5
Using your mobile phone as a credit/debit card to pay for your groceries	17%	31	23	10	3

Rethink your marketing strategy so consumers choose your brands

The consumer coping strategies require brand and category-specific marketing strategies to help build brands, grow revenue, manage your channels, and enhance margin

- Brand building**
 - Which brands should I invest in?
 - Which types of brand investments should provide the greatest ROI?
 - Which brands are best positioned as niche products?
 - Which competitor brands pose the most significant threat to my brands?
- Revenue growth**
 - Which brands provide the greatest growth opportunity?
 - How can I initiate trial or purchase among consumers intending to purchase another brand?
 - How can I take share from store brands?
- Channel strategy**
 - In which channels should I launch new products, and in what sequence?
 - Which brands should I offer and emphasize in each channel?
 - How should I manage differing promotions and pricing across channels?
- Margin management**
 - For which brands can I increase margin, and in which channel?
 - What would happen if I drastically reduced promotional activities for my brands?
 - For which brands should I wean retailers off a discount calendar?
- Pre-purchase planning & In-store experience**
 - What should be the mix of in-store POS promotions and pre-shopping marketing for each of my brands?
 - For which brands and product categories should I focus my mobile and social media efforts on?

The American Pantry Study provides data that can help answer these questions and more



In closing – value through actionable insights

Industry challenges:

- Maintaining market share
- Profitability
- Product line-up and category mix

American pantry study:

- Consumer attitudes
- Assessment of brand strength
- Evolving shopping strategies
- Impact of new technology

About the study

We conducted a large-scale, nationally-projectable quantitative study in October, 2011 online among 4,086 household shoppers. The sample reflects the demographic distribution of the United States. The survey results have a margin of error of plus or minus two percentage points

The mission of the research is to help companies translate how consumers are coping with the lasting impact of the recession and the shopping strategies they are using, resulting in insights to help companies drive increased market share and profitability while enhancing their ability to make product line and category mid-choices.

- The complete 2011 American Pantry Study includes insights and data from the shop-along, consumer survey, and focus groups. Data analysis and interpretation can be conducted by product category, brands, competitors, channels, consumer segments, etc.
- Customized research tailored to your objectives can be purchased by contacting Rob Parkins at rparkins@deloitte.com or +1 515 241 2876

Methodology

2011

Qualitative:

- 16 Shop-alongs
- 2 Focus groups

Quantitative:

- Online among n=4,086
- Primary/shared shoppers

29 product categories

400+ brands

Categories covered in the study

- Soft drinks
- Fruit juices & drinks
- Iced teas, sports drinks & enhanced waters
- Candy/confections
- Cereals
- Household cleaners
- Coffee
- Condiments
- Cookies
- Dairy – yogurt and cheese
- Dish/dishwashing cleaning products
- Dressings/marinades
- Energy drinks
- Frozen pizza/frozen ready-made meals
- Gum
- Ice cream
- Laundry soaps
- Meal kits
- Paper towels
- Pet food
- Salty snacks
- Sauces
- Soups
- Food storage
- Tabletop disposable paper products
- Toilet paper
- Bottled water
- Beer

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