



CONSUMER SPEAKS

Fresh vs. frozen: The battle for sales

- Moderator:** • Sam Loughry
- Guest speakers:** • Jim Mills and Alejandro Mendez

Sam: Welcome to Consumer Speaks, a Deloitte podcast series where you'll hear industry specialists share their perspectives and insights on emerging topics impacting the consumer industry. Today, we'll be discussing "[Fresh vs. Frozen](#)," a fresh food consumer survey in Deloitte's [Future of Fresh series](#). I'm joined by Jim Mills, National Agribusiness Audit leader and Audit & Assurance partner at Deloitte & Touche LLP, and Alejandro Mendez, California Agribusiness co-leader and Audit & Assurance managing director at Deloitte & Touche LLP, to break down the shifting consumer behaviors from fresh to frozen food and offer suggestions on how food suppliers and retailers can lean into the changes. Thank you both for joining us.

Jim, for those that may be unfamiliar with the Future of Fresh, tell us about the series and the "Fresh vs. Frozen" report.

Jim: Sure, Sam. We launched the Future of Fresh in 2019 as an annual report series to bring a deeper understanding to consumer behavior and purchase patterns, as we started to notice a rising demand for fresh food. Fresh sales were up over 10% in 2020, reaching unexpected new heights. Many were concerned that competition from the return of restaurants would cause retail food sales to plummet, but fresh sales in the first half of 2021 have significantly outpaced those of 2019, and we're seeing that revenue will be better than pre-pandemic as consumers plan to continue eating at home more.

Earlier this year, we also saw frozen food sales were up 21%, double the growth of fresh food sales in the same period, so the third annual edition of Deloitte's Future of Fresh series, "Fresh vs. Frozen" report, dives into the competition offered by frozen food. In July 2021, we surveyed 2,000 adults in the United States, who influenced fresh food purchases in their households and compared those consumers with those from pre-pandemic times. Analysis of the data from our 2021 consumer survey reveals the top three reasons why frozen may be rising among consumers. It is what we are calling the three P's: perishability, price, and preference.

Consumer Speaks

Sam: Thanks, Jim. With the holidays coming up, we see more consumers eating at home. How does this influence fresh and frozen sales, and what are your thoughts on trends in food shopping and buying?

Jim: Sam, there are a number of factors influencing food shopping and buying habits this holiday season. The longer-term consumer trends of focusing on eating healthier and more sustainably will clearly continue to be on consumers' minds. This has been a significant driver of fresh food sales for a number of years. However, our survey highlighted the 3 P's: perishability, price, preference, of consumer buying behavior with an additional fourth P—plant-based alternatives. Plant-based alternatives can be sold in both the fresh perimeter and frozen sections of stores and have seen sales growth higher than that of fresh or frozen.

But buying this holiday season will be most influenced by two significant recent trends.

- The first is inflation. It is clear that inflation for food and beverage products is here in a big way. We are seeing companies across categories raising the prices of products, particularly for products with a strong brand association and in premium categories such as is the case with many fresh products. Consumers as they buy for their holiday meals this season will very directly feel these increases. The importance of the price element in consumer buying will be that much more important to consumers. All else being equal, frozen foods, with its lower price point than fresh, should receive a boost over fresh this holiday season given this trend.
- The second trend is availability. One just needs to drive by any major port in the US to know there is a significant supply chain backlog. That has severely constrained transportation, in particular for trucking of product to markets. Food and beverage companies we work with have had significant challenges being able to move products, in some cases requiring extraordinary actions to be taken to prevent spoilage of products. This will clearly have an impact on the

availability of fresh products on store shelves this holiday season. And for those products that are on the shelves, they will reflect the additional cost of getting that product to market. This further tips the scales to frozen this holiday season.

- Finally, coming back to plant-based alternatives, these products will also be impacted by price increases; however, they generally have longer shelf lives than non-plant-based alternative products, so you may see both increased availability over fresh as well as more moderate price increases. This should provide an extra boost to that category as well this holiday season

Sam: Thanks, Jim. I'm going to turn to Alejandro. Alejandro, let's dive into those three reasons frozen foods are on the rise. Tell us what the survey revealed.

Alejandro: Thanks, Sam. The survey revealed a couple items, and let me start with perishability. Fresh food, by definition, is perishable, so this is an area that is always top of mind for consumers, and the results of this year's survey highlights the sensitivity to fresh spoilage and waste. In fact, 7 in 10 consumers think about food wastage when making the purchase, so combining perishability with the pandemic-driven behavior of reducing shopping frequency, consumers are starting to favor frozen food for its longer shelf life. Three in four consumers in our survey said storing frozen food is convenient. Their capacity to store frozen food grew through the pandemic, with 30% of consumers expanding their freezer capacity. In response to this, many in the fresh industry have been creative in creating new packaging options where before consumers would maybe buy a separate case of blueberries and raspberries, and now you have the option of buying both in one or the mixed bag of broccoli and cauliflower.

If we move to the next P—price—consumers still see price as king. Ninety percent of consumers surveyed report that price is the most important purchase driver for fresh. For the first three-quarters of 2021, the United States experienced inflation in food prices and that is expected

to continue in the near term. In a period of rising prices, this is where frozen has an advantage, as fresh food can be significantly more expensive. Consumers do not like uncertainty when it comes to prices. Six in 10 consumers perceive the price of fresh food as more unstable than the price of frozen. If we compare fresh with plant-based alternatives, consumers continue to place higher value on fresh and therefore pay premium, with 70% of consumers surveyed being willing to pay a premium for fresh food, while only 32% would do so for plant-based alternatives.

Last, but not least, we come down to our last P—preference. The last reason we see frozen food sales on the rise is due to the evolved perception of frozen food. Frozen food offers better quality, more variety, premium options, and healthfulness. Roughly 50% of younger consumers aged 18 to 35 are much more likely to agree frozen is equivalent to or better than fresh. As they grow their families, economic standing, and purchasing power, their frozen preference could indicate a longer-term trend.

Sam: Alejandro, the 2020 survey "[Patterns from the pandemic](#)" looked at consumer profiles that favored fresh foods. How does that compare to this year's study?

Alejandro: I'm glad you brought that up, Sam. As we revisited our fresh consumer profiles from the 2020 survey with renewed statistical analysis based on consumer responses relative to shopping frequency, amount of fresh food purchased, perception on price, stress while shopping, and experience with stockouts, many of these areas that were impacted by the pandemic continue to be impacted with supply chain disruptions. This exercise confirmed the continued presence of two distinct fresh consumer profiles—the conventional consumer and the contemporary consumer.

Conventional consumers comprised 52% of the survey group, down from 60% in 2020, and this group tends to be older, lower-income, more rural, while contemporary consumers comprised 48% of the survey, up from 40% in 2020, and they tend to be younger families, more well-off, and

Consumer Speaks

urban dwellers. This is where we focused our attention as this persona preference for fresh grew stronger, noting 60% of this group recently increased their purchases of fresh food, which is up 10% from the last study. Seventy-five percent is also willing to pay a premium for fresh food and 64% specified the importance of brand when buying fresh food.

What we found interesting in this year's study is that contemporary consumers were open to trying alternatives to fresh when confronting stockouts, including switching to frozen food, and as a result said frozen was just as good or better than fresh with scores that were, at minimum, 18 percentage points higher than those of conventional consumers. This is important to highlight as contemporary consumers will form and cement these habits for a longer period of time.

Sam: Alejandro, you've mentioned brand plays a significant role in the sales of fresh food. Can you expand on that concept a little more?

Alejandro: Brand extends beyond logos and takes into consideration the channel and experience when consumers buy fresh, such as online shopping for fresh food or placing value on how fresh food is packaged to prevent contamination and waste, which we refer to as sustainability. Sustainability was viewed as a specific driver for purchase of fresh food; however, since 2019 we've seen the importance decline 10 percentage points. Six in 10 believe fresh food that is in packaging will stay fresh longer than fresh food without packaging. Keeping the food from going to waste seems more important than waste caused by packaging, a case of perishability trumping sustainability. As we see the shift in priorities, this year's study has also revealed that a combined 64% of consumers think grocery stores/retailers, food brands, and farmers/producers bear the most responsibility for making the food system more environmentally sustainable, which could impact how their brand is perceived. What did surprise me

was that only 8% of consumers viewed that the ultimate buyer was responsible for the same.

Sam: Alejandro, that's an excellent segue to my next question. With all these factors in mind, what should food producers and retailers keep in mind to respond to consumer preferences?

Alejandro: Rise to the challenge. Strengthen fresh offerings while seizing the frozen food segment.

Let me start with food suppliers:

- Start with strengthening the fresh food supply chain. Focus on transforming supply chains to become more efficient to ensure food reaches retailers without losing its freshness.
- I would then suggest they diversify the food portfolio. Explore the option of selling more product into frozen offerings and evaluate building a branded presence in frozen food.
- Grow your online presence. Sixty-eight percent of contemporary consumers bought at least some fresh food online. Sixty-nine percent are also more likely now to be interested in other innovations like subscription services, and 78% are interested in low and no-prep fresh meal solutions. Direct-to-consumer and subscription box services are some of the ways to reach these target consumers.

If I switch over to food retailers:

- Something similar, strengthen the online presence for fresh. Work to keep fresh prominently included in search results and virtual shelves, even as retail media ad dollars flow in, potentially obscuring visibility with brand-supported alternatives.
- Then reimagine the frozen section, making the frozen section more appealing through new technology and displays. Frozen can be fun. Consider investing in private-label frozen products.

- And lastly, re-energize the fresh foods section, increasing consumer engagement through interactive and display options, such as fresh salad bars, live cooking demonstrations, tasting sections, and recipe-based ingredient displays.

Sam: Thank you, Alejandro, for sharing these strategies. Jim, I'll turn to you. Do you have any closing thoughts?

Jim: Sam, in closing, our survey highlighted consumers get more satisfaction in eating fresh versus frozen food. Specifically, 90% of consumers say that eating fresh food makes them feel happy compared to 40% for frozen foods this year. While we view that the longer-term trends toward consumers opting to buy more healthier, sustainable products will continue, in the near-term, inflation, availability, and assortment of product will more impact fresh than frozen products. This tilts the playing field toward the attributes of frozen. In short, the fresh-loving contemporary consumer we've discussed is subject to being converted to a frozen buyer too—at least in the near-term.

Sam: Gentlemen, this has been a great discussion on fresh versus frozen. Thank you, Jim and Alejandro, for joining us. If you'd like to read the full report and explore some of the insights we've covered, visit [deloitte.com](https://www.deloitte.com) and search for "Fresh vs. Frozen." While on the site, also check out our [Agribusiness practice](#). Thank you all for tuning in and we look forward to you joining us on the next episode of Consumer Speaks, sponsored by Deloitte's Audit & Assurance business. Until then, feel free to email me, Sam Loughry, at sloughry@deloitte.com. Happy Holidays and take care.

Consumer Speaks

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