

TABS Group Third Annual Consumer Value Study of Consumables

Executive Overview

TABS Group conducted a comprehensive survey of Consumer Packaged Goods (CPG) consumables categories to uncover growth and consumer buying trends. Overall, the consumables categories surveyed showed a four percent decline in purchases, primarily driven by a lower number of heavy category buyers (buying six plus times annually) versus 2014. In most consumables categories surveyed, the actions of heavy buyers had the biggest influence on whether the purchases were up or down.

The decline in heavy buyer participation can be further corroborated by the amount of promotion activity observed in the survey. TABS looked at 10 deal tactics (e.g. coupons, free-standing inserts, and rebates) and found that nine of the 10 had declined in use from 2014. Many deal tactics saw double-digit declines and 11 percent of the consumers surveyed didn't use any deals at all, up from eight percent in 2014. These findings point to a trend of discouraged deal seeking consumers who are looking for discounts but are not finding them and in some cases have stopped looking.

Not surprisingly, the decline in reported purchases by consumers translated into lower sales in some channels, as

estimated by TABS. The biggest declines came in the mass channel with the largest gains coming from the grocery channel. This was further supported by growth in discount grocers such as Aldi, which garnered more consumer trips in 2015. Although in the news a lot this past year, the share from the online channel remained flat at four percent for the third year in a row.

Two themes that weigh heavily in the survey are targeting households with families and maintaining active deal levels. Both correlate with higher category participation and sales. Although millennials remain a much talked-about focus in the media in general, they are not active buyers in any of the consumables categories covered in the survey. By contrast, households with children are the highest consuming group for consumables and should be the core target for manufacturers and retailers alike. Likewise, consumers in general are looking for deals. Net, medium and heavy category buyers are also active users of promotional deals. When deal levels are cut back, participation declines across the categories.

Each of these findings is discussed in more detail in the text of this report.

Research Study

In August 2015, TABS Group conducted a survey to uncover detailed information about the U.S. consumables category and consumer buying trends. The survey panel consisted of 1,000 geographically and demographically dispersed consumers between the ages of 18 to 75. The TABS Group worked with the Caravan Panel of ORC International to assemble the panel.

It is important to note that this is a different panel from the panel used in previous studies. Changing panels can introduce slight deviations in the results. Wherever possible, TABS Group took steps to identify and minimize the impact of the change in panels.

This was the third year in a row that the TABS Group conducted this survey.

The same 15 categories have been included in each survey:

a) Frozen and Refrigerated:

Ice cream, frozen pizza, frozen novelties, refrigerated juices and yogurt

b) Beverages: Carbonated beverages, water fruit juice, isotonic (sports drinks)

c) Snacks: salty snacks, popcorn, candy

d) Baked Goods: cookies, crackers

e) Grocery: cereal

The survey set out to determine:

1. The frequency of purchase over the past 12 months for each of the 15 categories.

2. The outlets where the consumables purchases occurred.

3. The outlets where consumers purchase consumables regularly (defined as 6 plus times per year).

4. The types of deal tactics consumers use for their consumables purchases.

5. Attitudes toward certain "on-trend" issues in the industry (e.g. organics purchasing and use of online shopping).

Survey Definitions

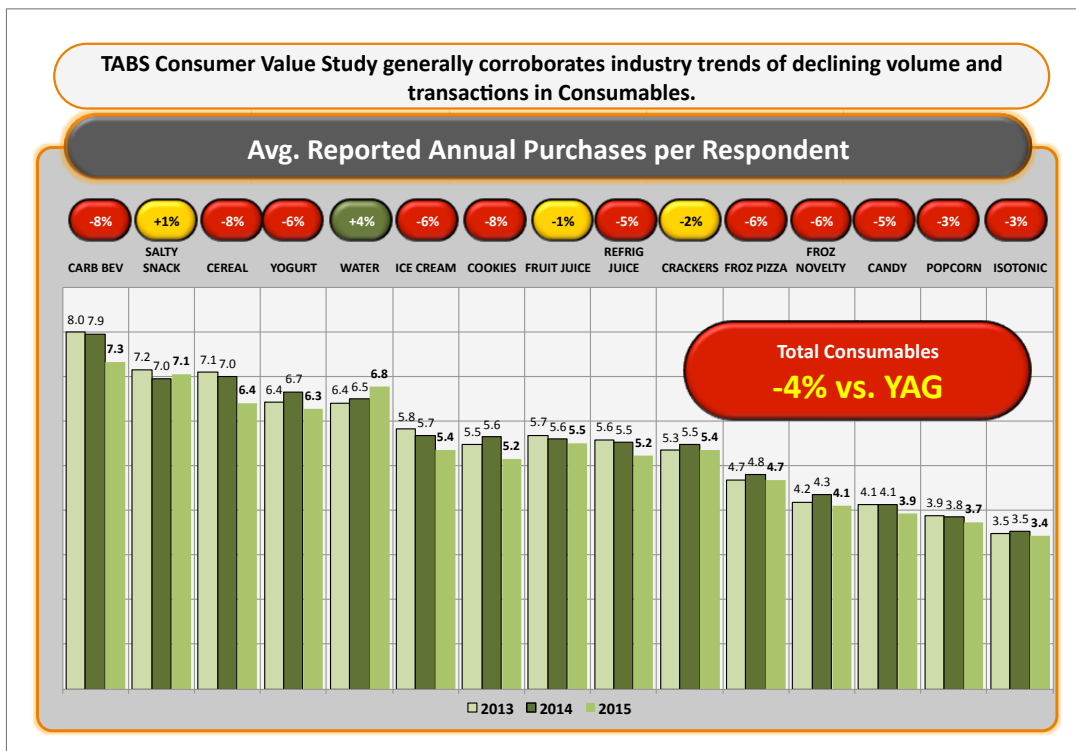
The survey definitions for deal tactics include the following:

- **EDLP:** Every Day Low Price.
- **Shop for Deals:** Consumers explicitly choose stores that offer the “best deals.” Circular: Paper advertisements of price discounts distributed by retailers at stores or by mail.
- **PVL Purchases:** “Private Label Purchases” – or, buying the “house” brands of retailers which are typically 20 to 30percent cheaper.
- **FSI:** Free Standing Insert is the coupon insert that comes with the Sunday paper.
- **Loyalty:** Loyalty cards issued by a stores that provide discounts to users of the cards.
- **Large Sizes:** Large size packages that usually yield a better “value”.
- **Digital Coupons:** Coupons distributed on the online.
- **Bonus pack:** Additional item(s) bundled with an existing item as a promotion incentive
- **Rebate:** Require a consumer to mail in a coupon for redemption of the offer.

The study calculated market shares by outlet using a share of mentions methodology. TABS Group has found share of mentions to be highly correlated to Share of Total Purchase Occasions found in household panel data (see 2013 Consumer Value Study webinar for a detailed [explanation](#)). Share of mentions is the total mentions for a particular outlet as a percentage of all mentions made by consumers.

Consumer Category Trends: Declining Volume and Transactions in Consumables

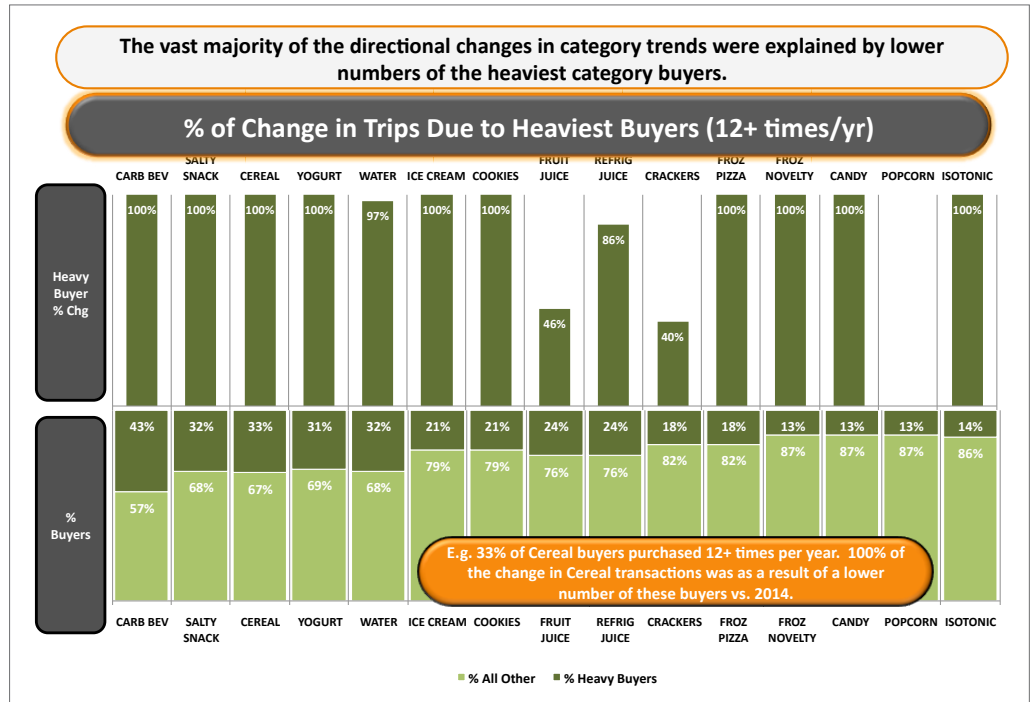
Unlike last year which saw relatively flat purchasing, this year there was a significant decline in reported purchase transactions. In fact, consumables dropped a significant four percent versus 2014. Of the 15 categories analyzed, 11 categories had meaningful declines of three percent or more in transactions compared with 2014. Only water saw a robust growth of four percent, providing further evidence that water will overtake [carbonated beverages](#) by 2017 as predicted by a number of industry experts. Carbonated beverages, cereal, and cookies saw sharp declines of eight percent. This corroborates recent news stories citing weakness in these categories, particularly carbonated beverages. Yogurt, ice cream and frozen pizza also experienced sharp declines, sliding six percent compared with 2014. And refrigerated juices and candy had notably steep drops of five percent. Salty snacks remained flat at just one percent versus 2014.



The vast majority of the directional changes in category trends were explained by lower numbers of the heaviest category buyers purchasing consumables over the last 12 months.

Very heavy buyers are defined as making purchases at least 12 times a year. For example, 33 percent of cereal buyers purchased cereal 12 times or more per year. The study found that 100 percent of the change in cereal transactions (eight percent drop versus 2014) was due to a lower number of very heavy buyers versus 2014. Conversely, almost a third of buyers purchase water at least once a month and 97 percent of the increase in water in 2015 is due to more very heavy buyers of water than in 2014.

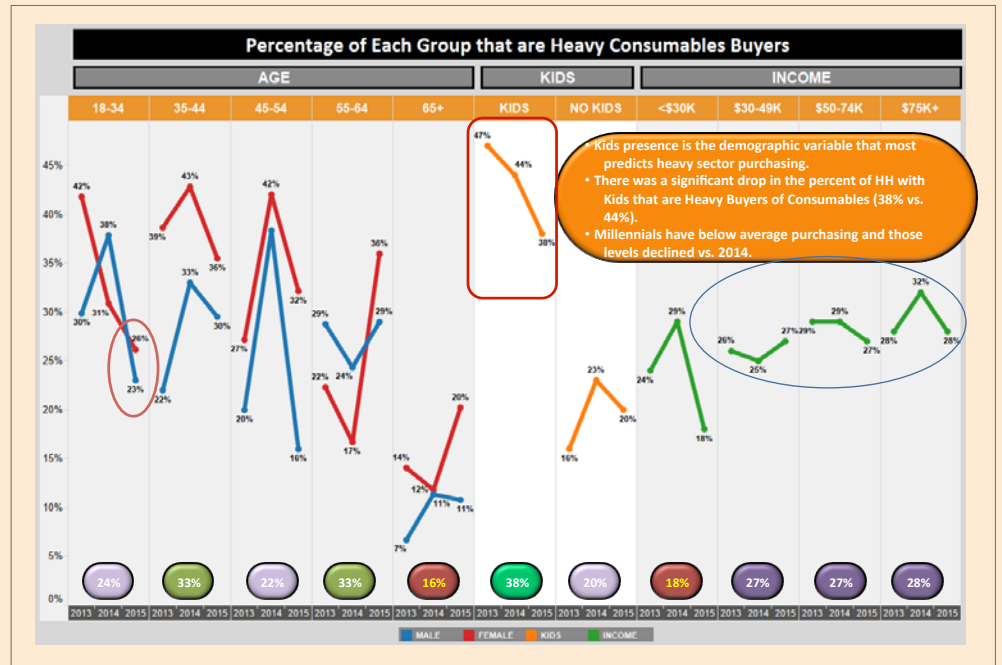
In addition, the study found that in all but three categories - fruit juice, refrigerated juice and crackers - the actions of the heaviest buyers had the biggest effect on the growth or the decline of each consumable category. This is somewhat unusual because generally when categories go up and down it is due to buyer count as compared to the volume of buying. For consumables, the very heavy buyers are really explaining the softness sales.



Gender and Age: Households with Children Predicts Heaviest Purchasing

TABS Group created a measure to define light, medium and heavy consumables buyers. There was a consistent scoring system of each buyer over the three years that is a function of high purchase frequency across several categories. In 2015 heavy buyers accounted for roughly 25 percent of buyers and 50 percent of transactions. This was lower than 2014, when heavy buyers accounted for 30 percent of buyers and over 57 percent of transactions.

The most important demographic variable for predicting heavy purchasing is the presence of children in the household. This fact is seen across all 15 categories. Thirty-eight percent of the households with children account for heavy consumables buyers versus just 20 percent of the households without children - an index of 190.



Perhaps not surprisingly, carbonated beverages, ice cream and cookies drove the trend of the overall category. In households with children, both carbonated beverages and ice cream saw a seven percent drop, and cookies saw a nine percent drop among heavy buyers.

Last year the key demographic news was the big drop (11 percentage points from 42 to 31) in heavy buyers among millennial women. In 2015 that trend continued. Millennials have below average purchasing and those levels declined compared with 2014. Thirty-one percent of millennial women were heavy buyers in 2014 and that number dropped to 26 percent in 2015. Millennial men plummeted from 38 percent of heavy buyers in 2014 to just 23 percent in 2015. Last year saw a big jump in the demographic, which ran contrary to the macroeconomic trends of younger consumers having higher unemployment, living at home longer and shifting their purchasing preference to personal electronics. The 2015 figure of 23 percent is well below even 2013, and is more consistent with the trend we see among younger women.

Alarming, households with children saw a second straight decline in reported heavy buyers, dropping 6 percentage points from 44 percent in 2014 to 38 percent in 2015. These households continue to represent the highest concentration of heavy consumables buyers. In fact, households with children are 90% more likely to be heavy buyers than households without. Two age groups that had sharp increases in heavy consumable buyers are 55-64 year old adults and adults over 65. The study found women 55-64 years old increased their heavy buying from 24 percent to 29 percent, whereas the men in the same age group jumped from 17 percent to 36 percent in 2015. A possible reason for this trend is that these older consumers have to buy for more people in their households as their **children are remaining at home longer**. Households with women 65 years of age and older also increased their heavy consumable buying from 12 percent in 2014 to 20 percent in 2015 whereas the heavy consumable buying for men remained relatively flat.

As overall income goes up there is not a commensurate increase in heavy buying in consumables, or in CPG overall. This is primarily driven by lower *marginal consumption* at higher income levels. Higher income consumers will tend to allocate more of their incremental purchasing dollars to leisure goods rather than consumer staples. Since GDP income growth has been concentrated in higher income households, this suggests that the CPG industry will continue to face headwinds as long as there is uneven income growth across all households. We can see the effect of marginal consumption by income bracket for CPG using IRI panel data.

INCOME GROUP	Avg Inc	Population Distn'	\$ Dist %	Dollar Index	% Chg Income	% Chg \$/HH	CPG Elasticity
INC-< \$15K	\$10.0	8.7%	6.9%	79			
INC-\$15-24.9K	\$20.0	11.5%	9.8%	85	100%	7%	0.07
INC-\$25-34.9K	\$30.0	12.4%	11.5%	92	50%	8%	0.17
INC-\$35-49.9K	\$42.5	13.9%	13.5%	97	42%	6%	0.14
INC-\$50-69.9K	\$60.0	14.7%	15.3%	104	41%	6%	0.16
INC-\$70-99.9K	\$80.0	16.0%	17.2%	108	33%	4%	0.12
INC-\$100K+	\$150.0	22.7%	25.8%	113	88%	5%	0.06

Source: IRI Panel Data, 2015. CPG Elasticity read as the percentage change in CPG Spending for each 1.0% change in Household Income.

Deal Preferences: Declines in Deal Participation across the Board

The study looked at 10 deal tactics that consumers use (noted above). Eighty-nine percent of consumers use at least one deal tactic, with 35 percent of consumers using at least five. There was a 17 percent drop in consumers using five or more deal tactics in 2015 (35 percent versus 42 percent in 2014). This is a statistically meaningful decline in consumer deal tactic usage.

The five most popular deals used were EDLP, shop for deals, circular, private label purchases and FSI. Nine out of the 10 deal tactics declined in consumer participation with large sizes remaining flat. Rebates (-25 percent), FSI (-18 percent), circular (-13 percent), and PVL purchased (-13 percent) saw the steepest declines. Contrary to another recent industry report showing a double-digit increase in digital coupons being *offered* to consumers, the TABS study found that the percentage of consumers using digital coupons dropped 10 percent.

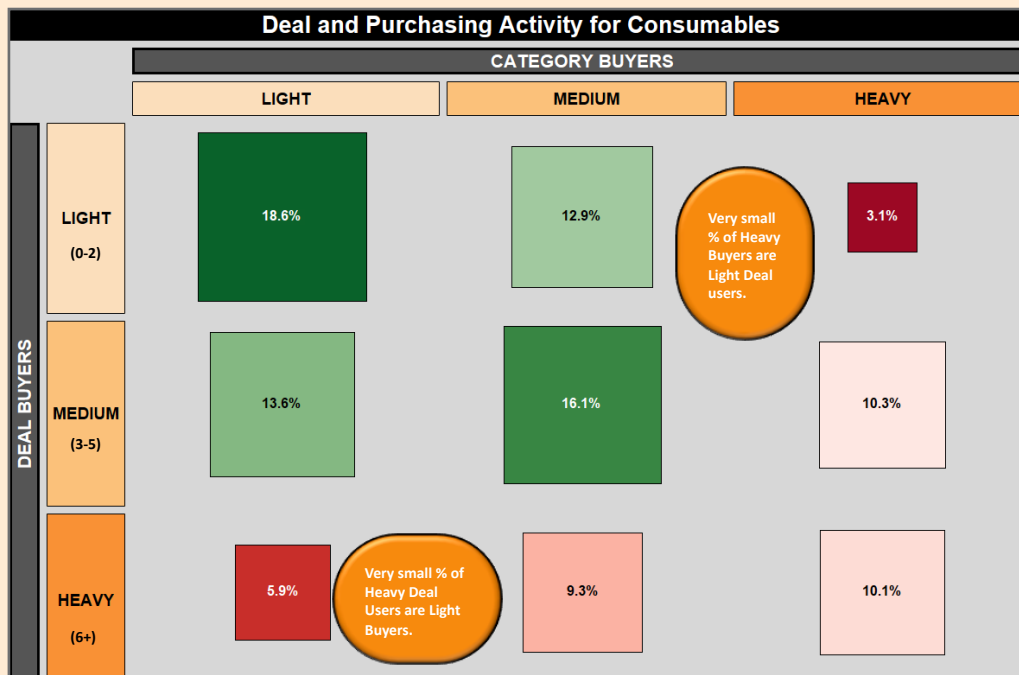
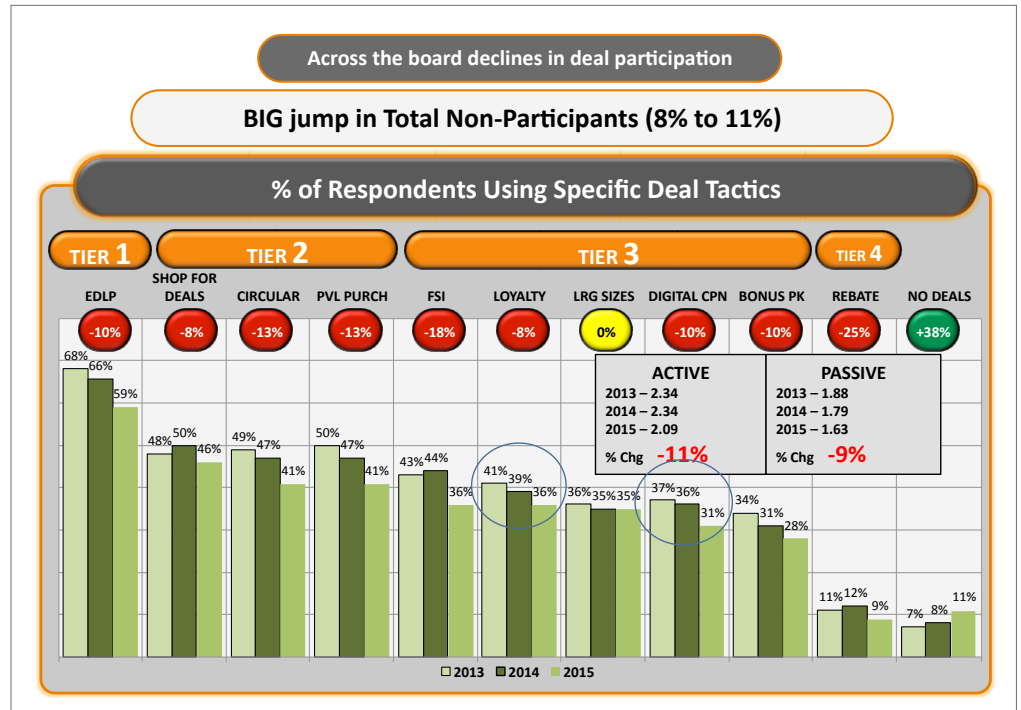
In addition, there was a big jump in the total number of consumers not participating at all in any deal tactics. These are what we refer to as "discouraged" deal seekers; they appear to have stopped participating in deals due to not

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being able to readily find them. In 2014, eight percent of consumers did not participate in any deal tactics and in 2015 that percentage jumped to 11 percent. As explained below, a decrease in the number of consumers who are not "participating" in deals is correlated with lower sales.

In the TABS Group Webinar "The False Hope of Loyalty Cards," it was noted that the effectiveness of trade promotions had dropped significantly in recent years as retailers placed more emphasis on promotional vehicles with less popularity and lower effectiveness, such as loyalty cards and online coupons. It was shown that the incremental sales at many retailers using these vehicles had dropped dramatically. The information that shows a surge in discouraged deal shoppers, therefore, is not surprising given the empirical observations.

In fact, this study also reinforces prior TABS Group research that found a high correlation between purchasing level and deal level. In fact, the research shows conclusively that it is more than correlation, but is actually causation, an important distinction. The survey found that just over three percent of the total population of shoppers are heavy buyers, but light deal users. Light deal users account for less than 25 percent of heavy buyers only. Conversely, 10 percent of the universe of shoppers are both heavy buyers and heavy users of deals. Said another way, a heavy buyer of consumables is 3 times more likely to be a heavy users of deals (6 tactics or more) than a light user of deals (0-2 tactics). Even worse, if a shopper is a light user of deals, he or she is six times more likely to be a light buyer than a heavy buyer (18.6% versus 3.1% of all shoppers).

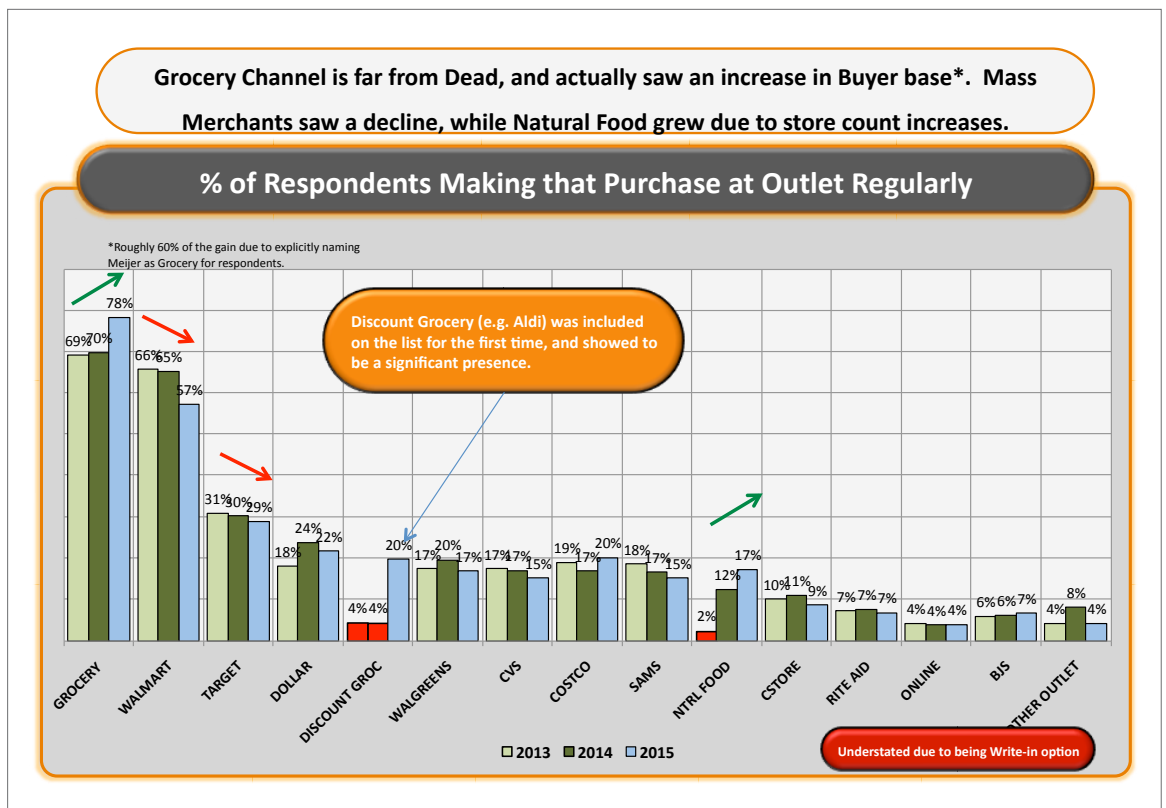


Outlet Shopping Patterns: Grocery Channel Increased in Buyer Base, Mass Merchants Decline, Online Remained Flat

The grocery channel continues to lead all shopping channels for the second year in a row in the TABS survey with the reported percentage of people buying at 78 percent. Roughly 60 percent of the gain in the buyer base was due to survey respondents explicitly identifying Meijer as a grocery outlet, which means that 40 percent of the gain was due to a true increase in regular purchasing in grocery. This year the study found a decrease in shopping trips to mass market outlets including Walmart, Target and Sam’s. Discount grocery outlets, such as Aldi, were included for the first time in the study and demonstrated a significant presence. This could account for part of the decline in mass channel accounts, as discount grocers have high appeal among shoppers who use EDLP as a deal tactic. Natural foods increased from 12 percent to 17 percent, primarily because the number of stores increased. However, **Fresh Market** and **Whole Markets**, the natural foods channel bellwether chain, experienced a softening of their same-store sales growth in the last 12 months.

Online continues to be a small factor in the industry with only four percent of respondents shopping online at least six times per year. This figure has remained flat since the inception of the study in 2013.

In order to get a directional market share, a share-of-mentions calculation is created by adding the chain/outlet percentages in each year and calculating a “share”. This calculation correlates well with actual in-market shares. Based on this calculation, the grocery channel continues to have the largest share of consumables share of mentions at 24.5 percent in 2015, followed by Wal-Mart at 17.9 percent. Wal-Mart’s share of mentions has declined for two consecutive years. The Natural Foods channel has seen a 35 percent increase in its share of mentions to 5.4 percent in 2015, most likely in part driven by more outlets (versus same store sales). Online’s share of mentions for consumables remained flat in 2015 at 1.2 percent.



The predominant outlets – Walmart and grocery – saw a significant drop in market share among heavy deal buyers, as these shoppers shop at many more outlets, often due to searching for deals. On average, heavy deal buyers shop at 4.2 outlets in search of the best deals. So these heavy buyers are the most “disloyal” buyers (“disloyal” meaning that buyers are not exclusively buying in one channel or store chain). As more outlets become available to shoppers, both grocery and Walmart lose some share. Grocery lost share in 2015 to dollar channel, discount groceries and Walgreens, primarily because of better deals in those outlets. Net, deals are very important to manufacturers as well as to retailers for growing share and sales, as seen in the consumables survey data (and consistently in other TABS Group research reports).

Strong Agreement across Four Trendy Concepts

This year the study also looked at respondents behavior across four trendy topics: buying organic drinks and snacks, researching drinks and snacks online, buying diet and low calorie drinks and snacks, and heavy online shopping.

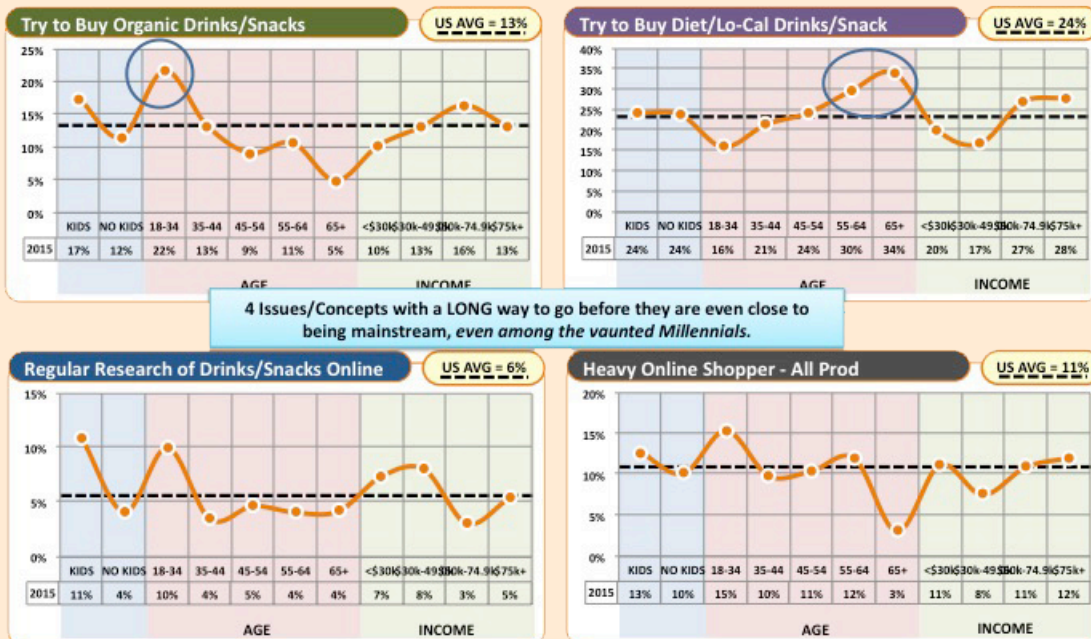
Despite what the news headlines may suggest, only 13 percent survey respondents try to buy organic drinks and snacks regularly. The group most likely to buy is 18-34 year olds, but even in this group, only 22 percent buy organics. Adults with kids, at 17 percent, make up the second most likely group to buy from this category.

Although the practice of showrooming is quite popular for consumers shopping for electronics, this practice has not trickled into consumables. Only six percent of respondents conduct regular online research on drinks and snacks. Eleven percent of households with kids use this tactic.

Twenty-four percent of all households buy diet and low-calorie drinks and snacks. Thirty-four percent of adults 65 years and older purchase low calorie drinks and snacks - making this demographic group the largest buyer in the segment. The aging of buyers of low calorie/diet products may explain why this segment is particularly weak. This concept has the most appeal to the lightest buyers, adults 65+, and a much lower appeal among the heaviest buying age groups: 35-54.

The last trendy concept the study analyzed was online shopping. Eleven percent of respondents are heavy online shoppers, with 18-34-year-olds shopping the most online (15 percent), followed by households with kids (13 percent), and then by households with income over \$75,000 (12 percent). The question was asked about general shopping, and not just consumables. With just 11 percent of adults 18+ agreeing strongly that they shop online for a variety of products, the reality of e-commerce is much lighter than the hype.

Strong Agreement with 4 Trendy Concepts



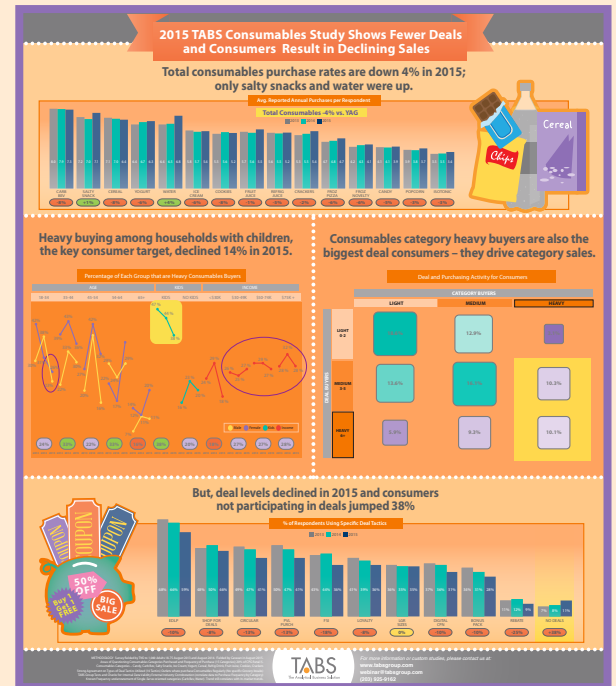
Summary

Consumables sales are very weak due to factors both macro-economic and industry self-inflicted. First, there is a definite substitution effect occurring that we discussed in last year's webinar. Consumers are spending less on consumer products and goods as well as apparel and are spending more on electronics and durables. The next factor is simple millennial economics. Millennials as a whole have lower incomes, but more importantly they have lower home ownership and are delaying their families. About **26 percent** are still living in their parents' homes. The last macro-economic factor is income. There is a lower marginal consumption relative to income for CPG consumables among the highest income groups.

CPG manufacturers and retailers still have the ability to improve sales. Marketers have made a significant error in making millennials the core target for purchasing consumables. The core target is the same as it has always been - households with children. Marketers also need to realize that deals matter to consumers. Take away the deals for consumers and you will take away the sales for your brand. Grocery is not dead, online is not a factor and natural is relatively small. **Discount grocery** is also important and is now too big to be ignored. Organic is a niche and will be for a long time. The two lowest concepts we asked respondents about were organic and gluten-free.

The study underscores the importance of focusing on the lifeblood of the industry: households with kids. Marketers need to quit chasing the niches - millennials, loyalty and digital promotions, online, organic, wellness, natural channel ideas - to the exclusion of innovation and marketing to the mainstream. The consumables market needs to get back to delivering regular, compelling promotions. Deals matter to consumers and they drive sales.

TABS Group 2015 Consumables Study Infographic



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