

Hudson Institute

How Supermarkets Are Shaping Up and Growing Their Lower-Calorie Products:

An Analysis of the Fence Sitter Consumer Segment

*Hank Cardello, Jeffrey Wolfson,
and Lauren Warren*

*September 2016
Support for this report was provided
by the Robert Wood Johnson Foundation*



© 2016 Hudson Institute, Inc. All rights reserved.

For more information about obtaining additional copies of this or other Hudson Institute publications, please visit Hudson's website, www.hudson.org

ABOUT HUDSON INSTITUTE

Hudson Institute is a research organization promoting American leadership and global engagement for a secure, free, and prosperous future.

Founded in 1961 by strategist Herman Kahn, Hudson Institute challenges conventional thinking and helps manage strategic transitions to the future through interdisciplinary studies in defense, international relations, economics, health care, technology, culture, and law.

Hudson seeks to guide public policy makers and global leaders in government and business through a vigorous program of publications, conferences, policy briefings and recommendations.

Visit www.hudson.org for more information.

Support for this report was provided by the Robert Wood Johnson Foundation.

Hudson Institute

1201 Pennsylvania Avenue, N.W.
Suite 400
Washington, D.C. 20004

P: 202.974.2400
info@hudson.org
www.hudson.org

Introduction

The Hudson Institute, a nonpartisan policy research organization, has studied the link between healthier, lower-calorie products and the sales performance of the companies that offer them. It has completed several landmark studies covering consumer packaged goods (CPG) food companies and restaurant chains that have demonstrated the positive impact of lower-calorie and/or better-for-you (BFY) foods and beverages on overall sales growth. Funded by the Robert Wood Johnson Foundation (RWJF) or the Healthy Weight Commitment Foundation (HWCF), these studies have demonstrated that selling more lower-calorie/BFY foods and beverages benefits companies financially and therefore should be aggressively pursued by industry.

As a natural follow-on to this growing body of research, Hudson Institute published a study focused on the performance of supermarket retailers, the front lines where consumers purchase these products. This latest study aimed to determine whether supermarket chains, like CPG companies and restaurant chains, are also reaping business benefits from selling lower-calorie products. The study found that although supermarkets are gaining the majority of their food and beverage sales growth, 59 percent, from lower-calorie products, they are not fully capitalizing on the growing demand for lower-calorie products found by CPG and restaurant industry studies. The study also found that lower-calorie sales growth is outpacing higher-calorie sales growth in both food deserts and non-food deserts, signifying that consumers, regardless of where they live or shop, are increasingly seeking out lower-calorie alternatives, and represent a market ready for change.

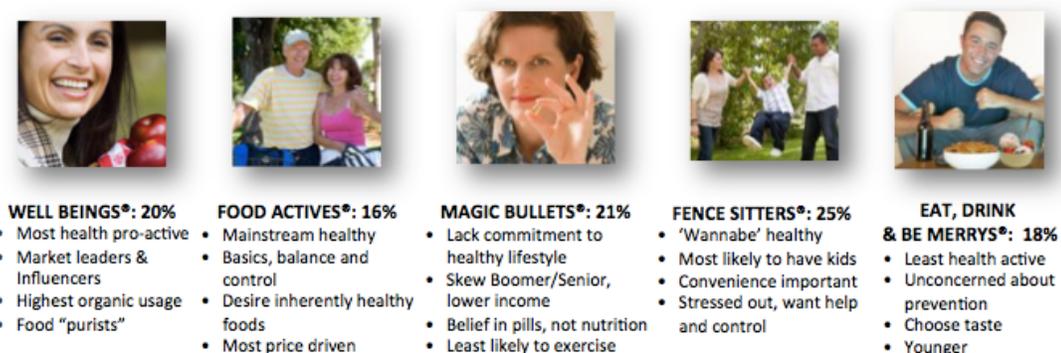
To further qualify these findings and build specific insights for retailers to utilize in order to fill this gap, the current report will focus on shedding light on supermarket performance among specific health and wellness segments in the population. Utilizing data from the Natural Marketing Institute (NMI), a leader in segmentation research to track trends and attitudes related to health and wellness, we aimed to explore sector performance within the key consumer target for better-for-you growth, the Fence Sitter segment.

Segmentation Background & Methodology

The findings presented in this report were collected from the proprietary Health & Wellness Trends Database® managed by the Natural Marketing Institute (NMI). Since 1999, NMI has conducted a comprehensive, quantitative health and wellness consumer research study focused on key attitudes, behaviors and motivations across a representative U.S. general population sample. As part of the annual research, NMI has developed a unique consumer segmentation model, utilizing a k-means clustering method based on attitudinal and behavioral variables, and conducting both exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). Over 200 different variables (among 80,000+ consumer surveys analyzed since 2001) were explored and narrowed to approximately 20 variables and a five-cluster segment solution. The reproducibility (i.e., ability to consistently replicate the same segments through the use of a typing tool algorithm) of the segmentation is high at an over eighty percent confidence interval. NMI provided data analysis and charts to the team from the Hudson Institute’s Obesity Solutions Initiative, who conducted insight analysis for this report utilizing the segmentation data set coupled with their experience and methodology in better-for-foods analysis.

As background, there is a wide range of diversity among the population within the health and wellness landscape. NMI’s Health & Wellness consumer segmentation provides a unique lens into the different groups in the U.S. population, and their defining attitudes, behaviors, motivations and purchase patterns. NMI has identified five distinct consumer groups, illustrated in Figure 1, ranging from those who are very engaged in their health (Well Beings), to those who have little motivation or interest in maintaining a healthy lifestyle (Eat, Drink & Be Merry’s).

Figure 1. NMI Health & Wellness Segmentation



Source: Natural Marketing Institute Health & Wellness Trends Database

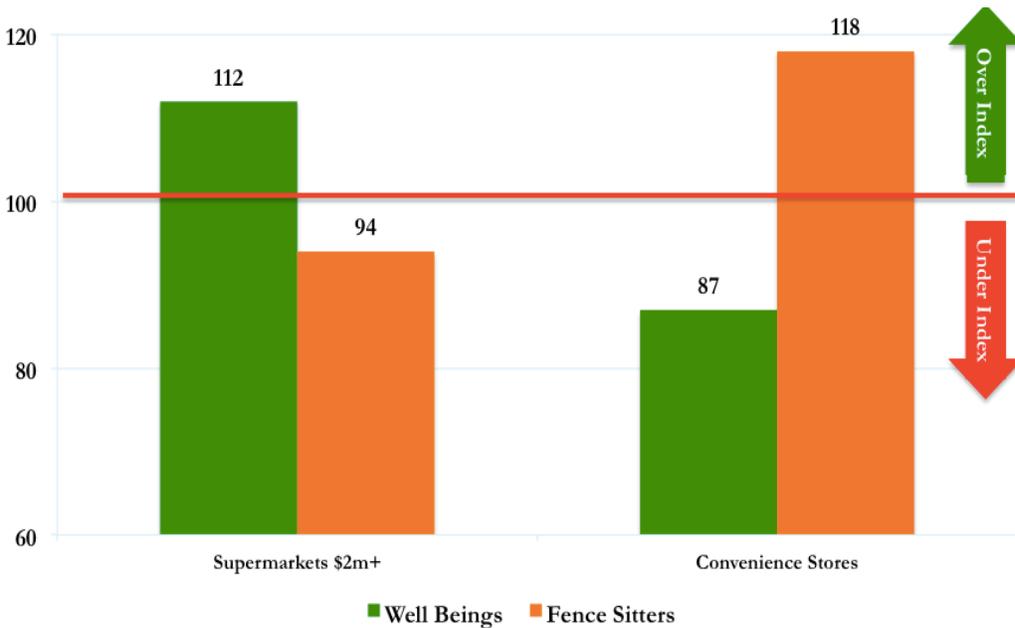
The approach for this study focused on exploring insights within a particular population segment that is a uniquely positioned target for better-for-you growth. Ethnically diverse and including the most households with children, Fence Sitters are the fastest growing consumer segment, rising from 18 percent of the population in 2009 to 25 percent today. According to their NMI profile, they like to read labels and consider nutritional facts when deciding what to buy. While they want to eat healthy - and are heavy consumers of bottled water and frozen vegetables -- they worry that eating well takes too much effort and that their children will find healthier food unappealing.

Using NMI's data on the five consumer segments, Hudson Institute examined Total Basket Ring Per Shopper (i.e., the total average spent per shopping trip) for each NMI respondent at the nation's top six supermarket chains during the 52-week period ending December 27, 2014. Hudson then assessed the Total Basket Ring Per Shopper for each of the five segments, which was then used to determine how well each brand/channel performed in terms of its "fair share" of spending per shopper in each segment. The basket ring per shopper data is based on ScanTrack data from the A.C. Nielsen Company. One of two major sources of food and beverage industry data, Nielsen ScanTrack captures sales data on point-of-sale purchases through UPC codes at food stores with more than \$2 million in sales, drug stores with more than \$1 million in sales, convenience stores and mass merchandisers.

Research Findings

Overall, our analysis suggests that while many of the largest supermarket banners (\$2 million+ in annual sales) are attracting the health conscious Well Beings (Index = 112), they are underperforming among the important and fastest growing Fence Sitter segment (Index = 94). On the other hand, convenience stores are doing a better job of capturing sales from this segment (Index = 118), likely due to the Fence Sitters’ time-stressed need for convenience.

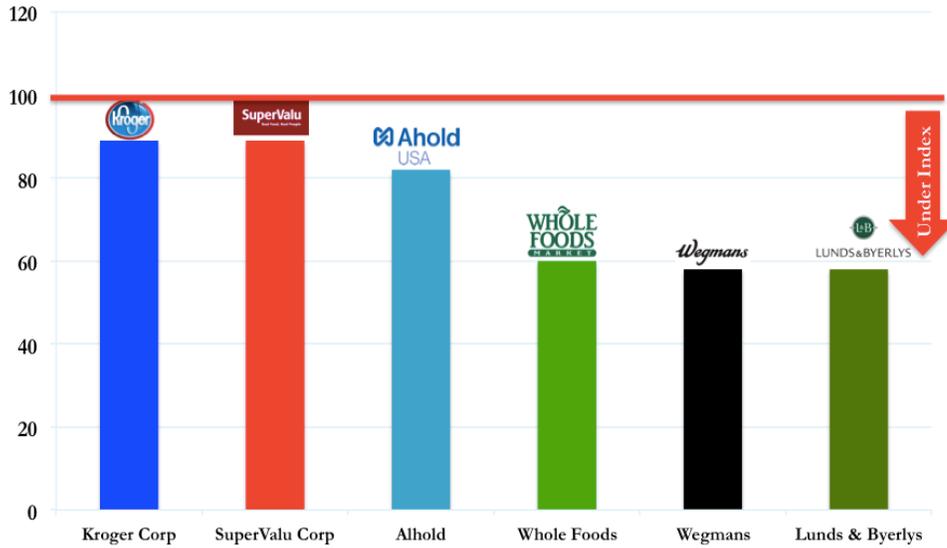
Figure 2. Large Supermarket & Convenience Stores: Total Basket Ring Per Shopper Index



Source: Natural Marketing Institute and Hudson Institute

The analysis of specific supermarket company performance for both the Well Being and Fence Sitter segments presents a similar picture. Among leading national chains, supermarket companies are underperforming among Fence Sitters. Among the six major supermarket chains assessed (Kroger, SuperValu, Ahold, Whole Foods, Wegmans, Lunds & Byerlys), none demonstrate a Basket Ring Index of more than 90 with Fence Sitters, suggesting these outlets are not marketing proactively to attract a representative share of the important Fence Sitter segment.

Figure 3. Supermarkets Underperforming with Fence Sitter Segment



Source: Natural Marketing Institute and Hudson Institute

These findings are in contrast to other retail channels, including convenience stores and military stores, where Fence Sitters are overperforming comparative to their population concentration, with Basket Ring Indexes exceeding 115.

Finally, the research study sought to uncover the primary product categories that indexed the highest for each key segment. As expected, purchases by Well Beings index high for generally perceived healthier items, including fresher products (e.g., refrigerated seafood; fresh vegetables). Fence Sitters display a similar behavior, with the exception that they index higher on more convenient forms of vegetables (frozen and shelf stable). This is consistent with the Fence Sitters' need for convenience compared to other segments and signifies the importance of these formats in not only helping Fence Sitters in adopting healthier eating habits, but in informing retailers that these categories present strong growth opportunities.

Figure 4. Comparison of Well Beings and Fence Sitters High Index Product Categories

Well Beings	Fence Sitters
Coconut Drinks	Fruit Juice & Nectars
Frozen Fruits	Peppers
Refrigerated Seafood	Frozen Vegetables
Sparkling/Carbonated Water	Shelf Stable Vegetables
Fresh Produce	Rice - Bulk & Packaged
Olive Oil	Apple Sauce
Herbal, Teas Bags & Packaged Tea	Still/Non-Carbonated Water
Rice - Bulk & Packaged	Dry Beans
Honey	Breakfast Bars
Dried Vegetables	Honey
Granola/Yogurt Bars	Mexican Foods - Canned

Source: Natural Marketing Institute and Hudson Institute

Conclusion & Discussion

This segment based research study highlights the underperformance of the supermarket sector in capturing share from the fastest growing Fence Sitter segment. Given the importance of this segment for growth, these large supermarket chains should re-evaluate their strategies as it relates to encouraging the Fence Sitter segment to increase spending and capture a representative share of their market basket. A greater understanding by retailers of the wants, needs and desires of consumers seeking healthier alternatives is called for in order to capture and grow sales from this important consumer segment. Additionally, our analysis suggests that without action by retailers this underperformance gap will continue to increase over time, especially as the Well Being and Fence Sitter segments approach 50% of American consumers.

The business case is compelling, as demonstrated by Hudson Institute's previous studies, that shifting to lower-calorie/better-for-you versions is tied to higher growth rates. Retailers must consider modifications to their current merchandising and promotional practices, such as targeting Fence Sitters with increased lower-calorie/better-for-you product prominence on shelf, in feature ads, on displays, and in check-out lanes, to address both challenges and opportunities related to selling healthier products for children and their families.

For the original full report including detail on the methodology, research limitations, broader study findings, references and author information, please visit:

http://s3.amazonaws.com/media.hudson.org/files/publications/2015.06.09_TheBetter-for-youBusinessCaseHowIstheSupermarketSectorShapingUp.pdf.

Hudson Institute is a research organization promoting American leadership and global engagement for a secure, free, and prosperous future.

Founded in 1961 by strategist Herman Kahn, Hudson Institute challenges conventional thinking and helps manage strategic transitions to the future through interdisciplinary studies in defense, international relations, economics, health care, technology, culture, and law.

Hudson seeks to guide public policy makers and global leaders in government and business through a vigorous program of publications, conferences, policy briefings and recommendations.

Hudson Institute

1201 Pennsylvania Avenue, N.W.
Suite 400
Washington, D.C. 20004

P: 202.974.2400
info@hudson.org
www.hudson.org