Consumer Trends in Food and Beverage Marketing in the United States: Opportunities for Business Enterprises

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Food is our common ground, a universal experience.

James Beard
(American Chef and food writer)
AFCERC provides analyses, strategic planning, and forecasts of the market conditions impacting domestic and global agricultural, agribusiness, and food industries. Our high-quality, objective, and timely research supports strategic decision-making at all levels of the supply chain from producers to processors, wholesalers, retailers, and consumers. An enhanced emphasis on consumer economics adds depth to our research on the behavioral and social aspects of health, nutrition, and food safety.
Definition of the Food Industry

Food Processing or Manufacturing

Food Wholesaling

Food Retailing

Food Service

Contribution to Gross Domestic Product
about 12-15 percent (or $1.9 to $2.4 trillion)

Employs roughly 17 percent of the work force

Beyond the farm gate
network of processors, wholesalers, retailers, and food service purveyors
Components of the Marketing Bill

What a dollar spent on food paid for in 2011

2011 Food Dollar: Industry Group

SOURCE: Economic Research Service, USDA
Breakdown of the Food Dollar for Food Eaten at Home and Away From Home

Food Spending Patterns, United States: 1970-2011

SOURCE: Economic Research Service, USDA
Percentage of Disposable Personal Income Spent on Food, 1935 to 2011

SOURCE: Economic Research Service, USDA

Demonstration of Engel’s law
Percentage of Disposable Personal Income Spent on Food at Home and Food Away from Home, 1935 to 2011

SOURCE: Economic Research Service, USDA
Per Capita Availability 1970-2011:
Poultry, Chicken, Turkey

- Poultry
- Chicken
- Turkey

Per Capita Availability 1970-2011:
Eggs

Year
Pounds Per Person
Eggs

Pounds Per Person
Poultry
Chicken
Turkey
Per Capita Availability 1970-2011:
Fresh Vegetables, Processed Vegetables

Per Capita Availability 1970-2011:
Sugars and Sweeteners
Directive to focus attention on the food distribution industry is consistent with the Hatch Act of 1887, which established agricultural experiment stations, and with the Agricultural Marketing Act of 1946.

Food distribution industry -- untapped clientele particularly to agricultural economists.

AFCERC = Center for Consumer and Food Marketing Issues
Selected Issues Relevant to Consumer Economics and Food Marketing

1. Understanding drivers of demand for food and beverage products
2. How to cater to the time-starved consumer
3. How to cater to the health-conscious consumer –
4. Food safety and traceability
5. Ascertaining the effectiveness of advertising and promotion as well as spillover effects
Selected Issues Relevant to Consumer Economics and Food Marketing

6. Understanding consumption patterns of selected demographic groups

7. Structure of the processing, wholesaling, retailing, and food services sectors

8. Use of information technology to improve decision-making in retail management and operations
ISSUE #1
What are the Driving Forces Behind the Demand for Food Products?

- Develop theoretical and econometric models to be in position to understand the drivers of demand for food and beverage products.

- Potential Drivers:
  - Prices
  - Income
  - Health and nutritional factors
  - Advertising and promotion
  - Demographics (region, race, ethnicity, age, education level)

- Outputs:
  1. Obtain own-price, cross-price, and income elasticities of demand
  2. Make forecasts of consumption of food and beverage products

- WHY?
  Market development and strategy depend on understanding drivers of demand
The story so far...

- More women are participating in the workforce than ever before
- There are more single parent or dual income families than ever before
- Bottom line...we are busier than ever before, and we place a higher value on our time (our opportunity cost of time has risen)

The food industry is consumer driven, not producer driven.
Place Emphasis on Demand Analysis of Food Away from Home (FAFH) by Region, by Meal Occasion, and by Type of Restaurant (Facility)

- Use of consumer reports on eating share trends (CREST) data
- Also, place emphasis on prepared (convenience) foods and snack foods.
- Most consumers eat at least one snack per day
- Assess impacts of FAFH consumption on health and nutrition
- Assess impact of the “Great Recession” on FAFH
- Explore opportunities in the $20 Billion Vending Machine Channel
Convenience Aspects of Coffee – Appeal to Time-Starved Consumers

U.S. coffee sales are predicted to reach $11.7 billion; single-cup coffee sales make up half of the sales; expected to grow 213% from 2011, accounting for $3.1 billion this year.

Roasted coffee, on the flip side, is forecast to decline 2.7% to $6.1 billion.

Ownership of single-cup brewing systems has grown to 36%.
ISSUE #3
Impacts of Health and Nutrition

How to Cater to the Health-Conscious Consumer?
Obesity – Common-Place and Costly

- Most urgent and widely emphasized health-related problem
- More than one-third of U.S. adults (35.7%) are obese
- 35% of males and 40% females are obese
- Childhood and adolescent obesity between 15% and 20%
- The estimated annual medical cost of obesity in the United States is in excess of $150 billion (in 2008 U.S. dollars)
- Medical costs for people who are obese were $1,429 higher than those of normal weight
Key Points

- Recognition of the importance of health and nutrition factors

- Consumer demand for fresh, natural, and healthful food is on the rise

- While sales growth in organic food has been robust, consumers are less willing to pay for the organic label

- Instead consumers are seeking out natural, less-processed foods

- Healthy snacks are on the rise, making up a third of sales in the snack industry, worth $75 billion to $100 billion annually
Health-Focused Beverages

• Health-focused beverages are poised for strong sales (Gary Hemphill, Beverage Marketing Corporation)

• Consumers expect beverages to do more than quench thirst

• Foresee strong growth for bottled water, ready-to-drink (RTD) teas, almond milk, energy drinks, and sports drinks

• Today, consumers are more open to different beverage concepts than ever before. Five years ago coconut water was not on the radar screen and protein beverages were just entering the marketplace.
Within the Dairy Industry

- Demand for organic, rBST-free, and soy milk in addition to the traditional demand for whole, low-fat, and fat-free milk
- What are the consumer profiles for organic, rBST-free, and soy milk?
- As a result of the growth of consumer demand for organic and rBST-free milk, what happens to overall retail milk sales?
- Increase in category sales or cannibalism of sales?
Phytosterol-Enriched Products

Assess consumer willingness to pay for new food products enriched with phytosterols
Gluten-Free Products

Gluten-free products continue to gain traction. Sales of gluten-free foods have risen from $4.8 billion in 2009 to $6.1 billion in 2011. The gluten-free market is predicted to grow 48% from 2013 to 2016.
U.S. Government Programs Target Nutritional Enhancement

- Supplemental Nutrition Assistance Program, National School Breakfast and Lunch Programs, WIC Program
- Demographic profiling is necessary to identify at-risk populations
- Changes in the WIC program eliminate whole milk, emphasize whole grains, and emphasize fruits and vegetables
- Limitations of starchy vegetables (particularly potatoes) in school lunches
How effective are government interventions such as the dietary guidelines or Choose My Food Plate (Center for Nutrition Policy and Promotion), in affecting food consumption patterns?
ISSUE #4
Food Safety and Traceability

• Food recalls and outbreaks (Salmonella, BSE, E-coli) are on the rise.

• Dairy consumers seek clean, sustainable products and packaging. More than 86% of U.S. shoppers said their purchases are influenced by environmental considerations.

• Origins of food is predicted to be a top consumer trend in 2014 (source: Innova Market Insights)

• Product launches featuring “origin” claims were up 45% in the first half of 2013 – cheese, tea, and chocolate in that order are the top products leading the origin trend.

• Increased attention to food safety also will drive the traceability trend.
ISSUE #5
Ascertaining the Effectiveness of Advertising and Promotion as well as Potential Spillover Effects

- Analysis of checkoff programs provides direct links to commodity boards
- Evaluation of advertising, promotion and public relations/public education programs
- Targeted advertising by producers
  - Advertising by medium (TV, radio, print)
  - Social media (Facebook, Twitter)
  - Branded vs. Generic advertising
Measuring the Relationship Between Promotion and Sales

- Sales/Demand Impact Analysis
  The goal is to disentangle effects of promotion from those of other forces

  Statistical procedures to isolate and measure specific effects of promotion on sales/demand.
Sales/Demand Impact Analysis

- Marginal Effects - Elasticities
  - Calculate percent change in demand/sales from a 1% change in promotion expenditures

- Simulation Analysis
  - Calculate level of demand that would have existed over history of program “without” promotion program and compare with actual level of demand over time
Sales/Demand Impact Analysis

Even if sales revenue increases as a result of promotion, an important question is:

Do sales increase enough to cover and exceed the cost of promotion?

- Benefit-Cost Analysis
- Benefit-Cost Ratio
- Rate of Return in Investment

![Cost of Advertising vs Sales Revenue Increase](image)
Focus on Hispanics as a key example

Understanding consumption patterns of the Hispanic community
- Growth rate of Latino population four times that of African Americans and nine times that of whites
- Important demographic group to California, Texas, Florida, New York and Illinois
Other Demographic Groups Which are Targets of Government Programs

- Low-income populations
- Adolescent, pre-adolescent, and pre-school children
- Elderly populations 65 to 80, ≥ 80
Generations of the U.S. Population

Millennials

Millennial consumers increasingly eating snacks as meals

Most consumers eat at least one snack per day and millennials are increasingly using snacks as meal replacements

<table>
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<tr>
<th>Generation Name</th>
<th>Birth Year, Ages in 2010</th>
<th>% of Total Adult Population</th>
<th>% of Internet-Using Population</th>
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<tr>
<td>Gen X</td>
<td>Born 1965-1976, Ages 34-45</td>
<td>19</td>
<td>21</td>
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<tr>
<td>Younger Boomers</td>
<td>Born 1955-1964, Ages 46-55</td>
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<td>Older Boomers</td>
<td>Born 1946-1954, Ages 56-64</td>
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<td>13</td>
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<tr>
<td>Silent Generation</td>
<td>Born 1937-1945, Ages 65-73</td>
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<td>5</td>
</tr>
<tr>
<td>G.I. Generation</td>
<td>Born -1936, Age 74+</td>
<td>9</td>
<td>3</td>
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</tbody>
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ISSUE #7
Structure of Processing, Wholesaling, Retailing, and Food Service Sectors
Change in the share of food-at-home expenditures by type of outlet – non-traditional grocery retailers, mass merchandisers (e.g. Wal-Mart, Target), drugstores (e.g. Walgreen’s, CVS Pharmacy,) and warehouse clubs (e.g. Costco, Sam’s).

In 1994, non-traditional grocery retailers accounted for 17 percent of at-home expenditures; currently in excess of 40 percent.

In 1994, supercenters accounted for 4 percent of at-home food expenditures; currently in excess of 20 percent.
ISSUE #8
Use of Information Technology to Improve Decision-Making in Retail Management and Operations

“Buzz” Words:
- Management Information Systems (MIS)
- Category Management
- Tracking, Analysis, Experimentation
- Data Mining
MIS - Identify key performance areas (KPAs) and key performance indicators (KPIs)

KPAs - Activities or functions vital to accomplishing firm objectives. Examples: inventory; profit; gross margins; expenses; sales; shelf space allocation; share of market

KPIs - Quantitative measures used by management. Examples: inventory turns; shrinkage as a percentage of sales; gross margin dollars; customer counts; sales per customer
Key Areas
Information Technology

TRACKING
spot potential problems and opportunities

ANALYSIS
reorganization and integration of data to answer questions

EXPERIMENTATION
cause and effect relationships
Key Areas
Information Technology

Managerial uses of point-of-sale (POS) data

- Tailoring reports to management
- Providing sales forecasts for individual items or categories
- Evaluation of coupons
- Evaluation of displays
- Evaluation of promotions
- Computations of own-price and cross-price elasticities
What is Data Mining?

- An information extraction activity whose goal is to discover hidden facts contained in databases. Using a combination of machine learning, statistical analysis, modeling techniques and database technology, data mining finds patterns and relationships in data.
Keys to Operationalization of Work Plan

- Requirement of investment in market information
  - Scanner data from Nielsen or Information Resources, Inc. (IRI)
    - Allows product detail
    - Allows brand identification
    - Allows regional analysis
    - Timely source of information
Information on Households and Individuals

- Nielsen Homescan Panel
- National Health and Nutritional Examination Survey (NHANES), Food and Nutrient Intake, Dietary Practices, Health Indicators, SNAP, WIC, NSLP, SBP
- BLS Consumer Expenditure Survey
- National Panel Diary (NPD), National Eating Trends
- CREST (FAFH)
- Current Population Survey (SNAP, WIC, NSLP, SBP, Food Security)
- Behavioral Risk Factor Surveillance System (BRFSS)
Keys to Operationalization of Work Plan to Conduct Research: Requirements for Undergraduate and Graduate Education

- Understanding consumer economics and food marketing issues, renew focus on agribusiness
- Offer food industry courses in curricula
- Place emphasis on consumer demand and industrial organization
- Develop communication skills
- Provide leadership opportunities
- Foster group problem solving
- Partnerships with industry
- Place emphasis on use of applied econometrics
*SUMMARY*

THE TRENDS PREVIOUSLY DISCUSSED WILL RESULT IN:

- A focus on “high priority” markets and those likely to be responsive to new marketing initiatives
- Increased information for producers and their organizations to use in making strategic longer-term investment decisions
- Stimulating more targeted advertising and promotional activities
- Added coordination/value added in food marketing chain
- Bottom line, this focus ultimately will translate into increased benefits to the food industry, and to business enterprises associated with this prominent industry