NCG Trends Report

September 2022

Contents

Foreword

NCG’s annual trends report pulls largely from secondary sources. A significant amount of the available data for 2021 relates to the impact of the COVID-19 pandemic and its effect on consumers. Where possible, data for 2022 has been provided. Co-ops are encouraged to use this document for direction and to seek other inputs in developing their business plans, including an internal SWOT analysis, internal financial and customer behavior data, and local market trends.

This document is confidential and for NCG and co-op internal use only.

Overview

The COVID-19 pandemic continues to impact the grocery industry. Supply chain and labor shortages linger. Although natural products led the way for sales growth among consumer packaged goods, at the same time consumer demand and consumer expectations for groceries rose. Natural products led the way for sales growth among packaged goods.

Meanwhile, inflation in the food industry is a concern for shoppers. The Consumer Price Index for food rose more than 7% from April 2021 to April 2022, with meat, poultry, fish and eggs rising 14.3% and fruits and vegetables rising 7.8%.[1]

Utilizing online options, making fewer trips to the store, buying more in bulk, shopping around for sales — all of these behaviors fluctuate as customers attempt to get the most for their grocery dollar. In addition, an increased concern for health, the environment and fair treatment of employees further impacts grocery purchases.

Experts suggested that 2022 would look more like the last two years than 2019.[2] Currently the grocery industry is observing:

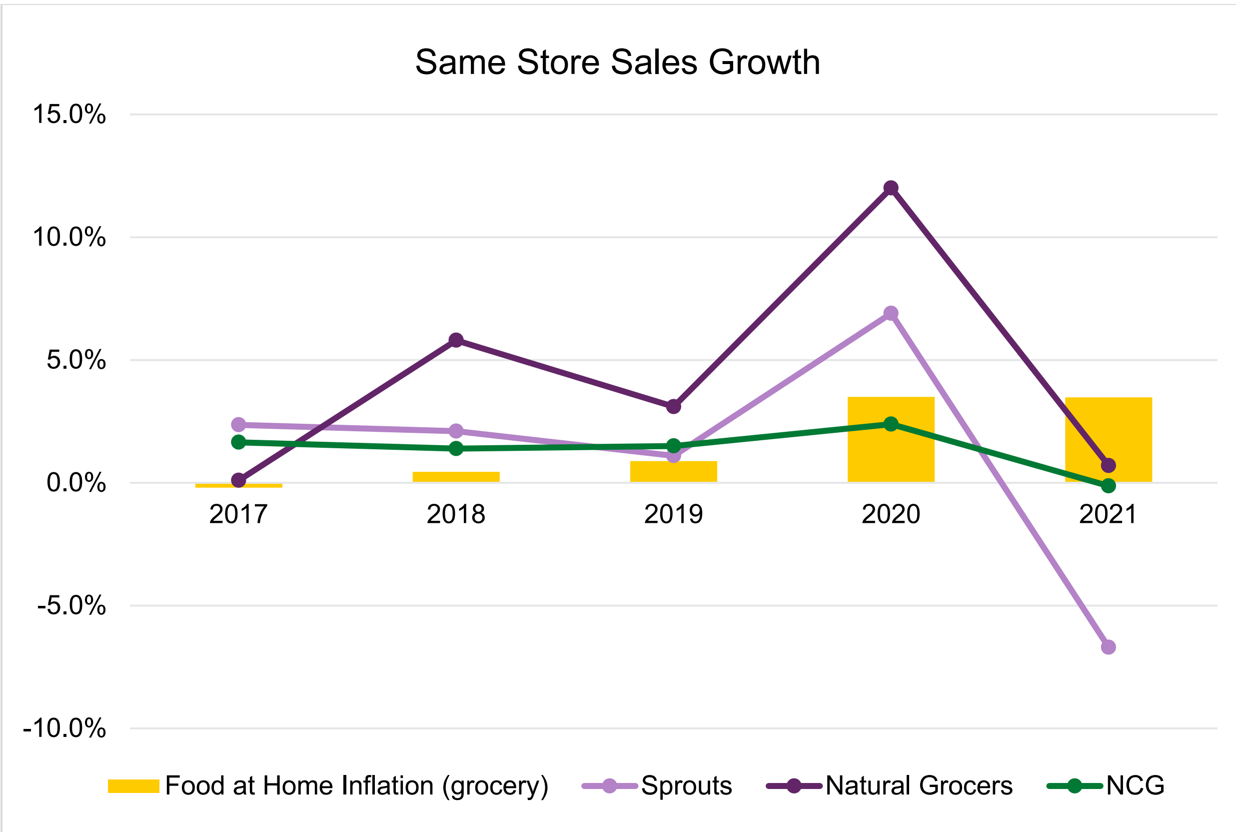
- Labor shortages are lingering
- Out-of-stocks continue to be an issue
- People continue to work more from home
- E-commerce and saving time remain important drivers for grocery visits and revenue
- Price sensitivity is increasing along with inflation

Rising prices, uncertain inventories, staffing turnover and labor shortages affect shoppers' ability to fulfill their grocery needs. Whether or not shoppers perceive stores to be responsible for these challenges, satisfaction remains relatively high.[3] Grocers have an opportunity to embrace these new challenges and rise to the new reality.[1]

NCG Co-op Performance

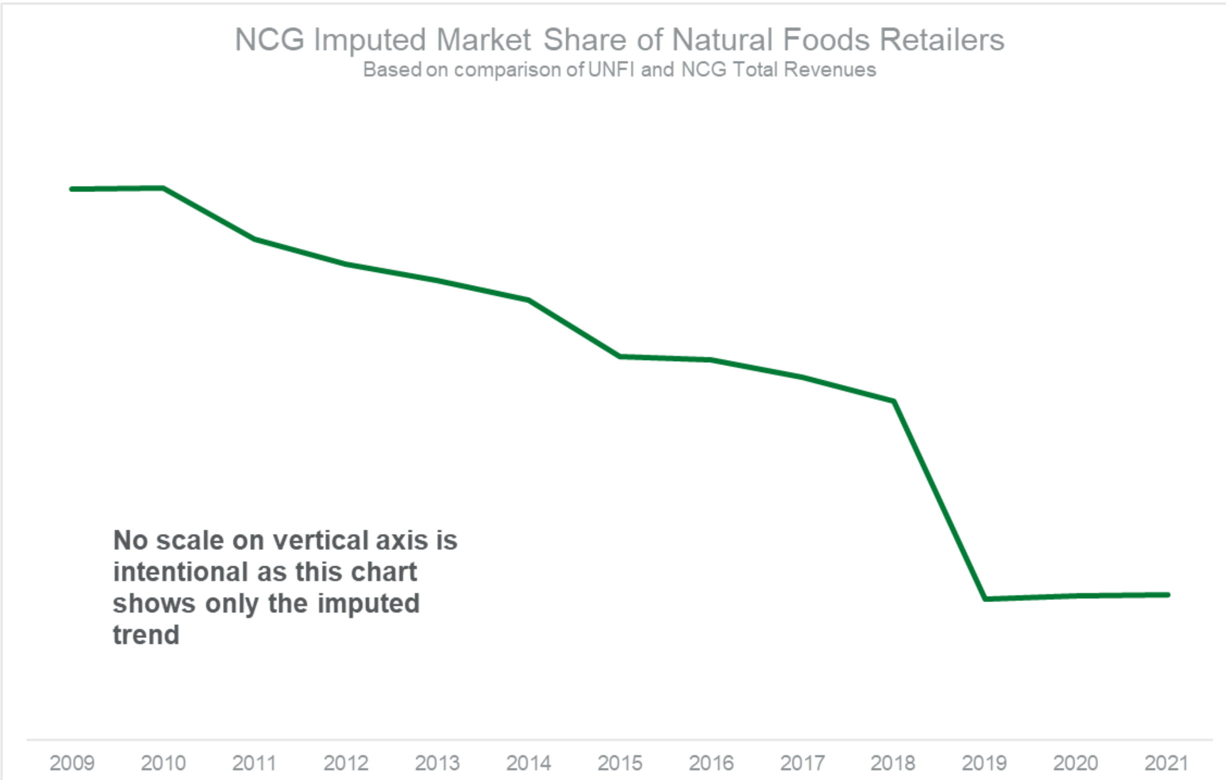
NCG co-op same store sales declined in 2021, though at a lower rate than Sprouts and Natural Grocers (not adjusted for inflation).

Figure 1. Same Store Sales Growth



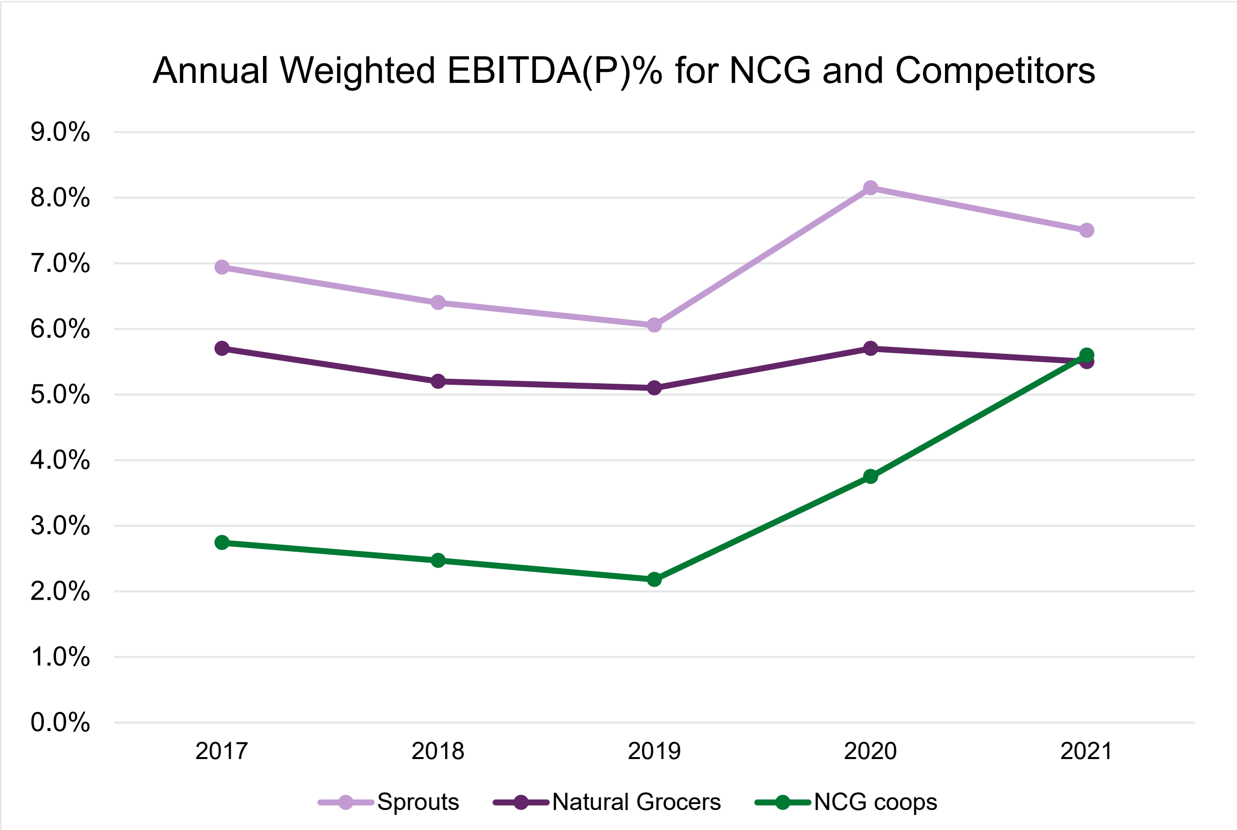
NCG's share of the natural foods market supplied by UNFI, which trended down for many years, has held stable over the past three years.

Figure 2. NCG Imputed Market Share of Natural Foods Retailers



NCG co-op earnings — as measured by earnings before interest, taxes, depreciation, amortization and patronage refunds — increased dramatically over the past two years driven by Federal Relief Funds. Sprouts and Natural Grocers earnings also increased, but at a lower rate.

Figure 3. Annual Weighted EBITDA(P)% for NCG and Competitors



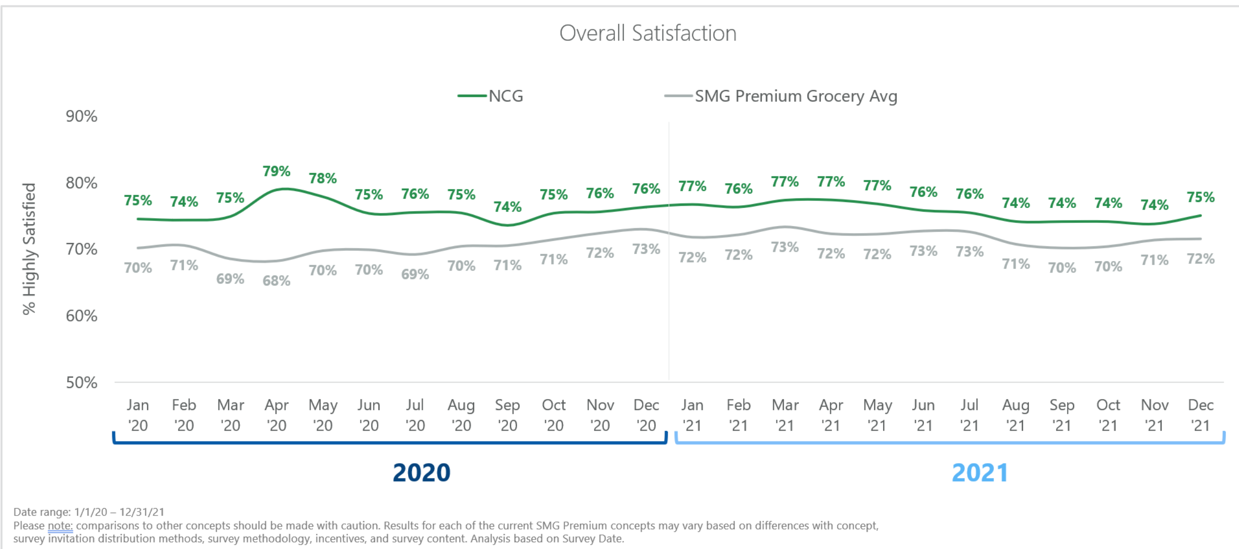
NCG Co-op Shoppers

NCG's Customer Experience (CX) program is one way co-op shopper satisfaction is measured. The CX program helps co-ops understand how satisfied their shoppers are, identify areas of opportunity, and benchmark the impact actions have on overall satisfaction as well as key measures like value and shoppers' likelihood to both return to the co-op and recommend the co-op to others.

Overall Satisfaction

On average, NCG continues to outperform other premium grocery operators on overall satisfaction. However, overall satisfaction has declined over the last two years.

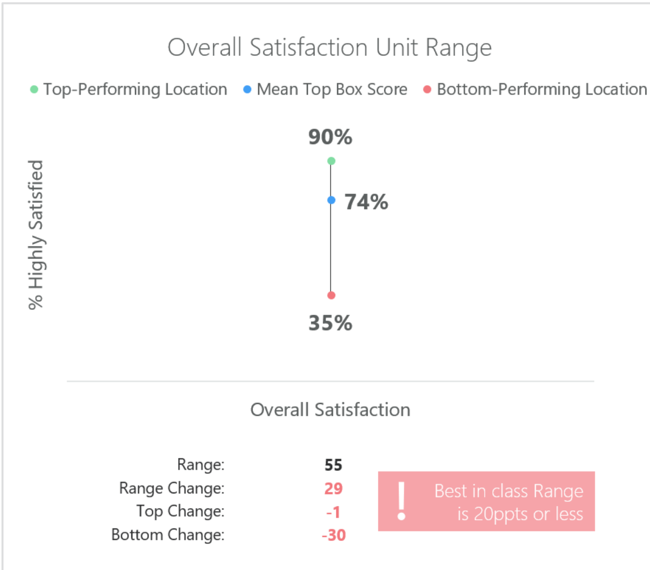
Figure 4. CX Survey Overall Satisfaction



As Figure 4 demonstrates, overall satisfaction peaked in April 2020, with 79% of shoppers saying they were "Highly Satisfied" with their co-op experience. After falling to 74% in September 2020, overall satisfaction improved in the first half of 2021, averaging between 76% and 77%. Since then, co-ops have experienced a decline in overall satisfaction; a trend that continues into 2022, with current scores hovering between 73% and 74%.

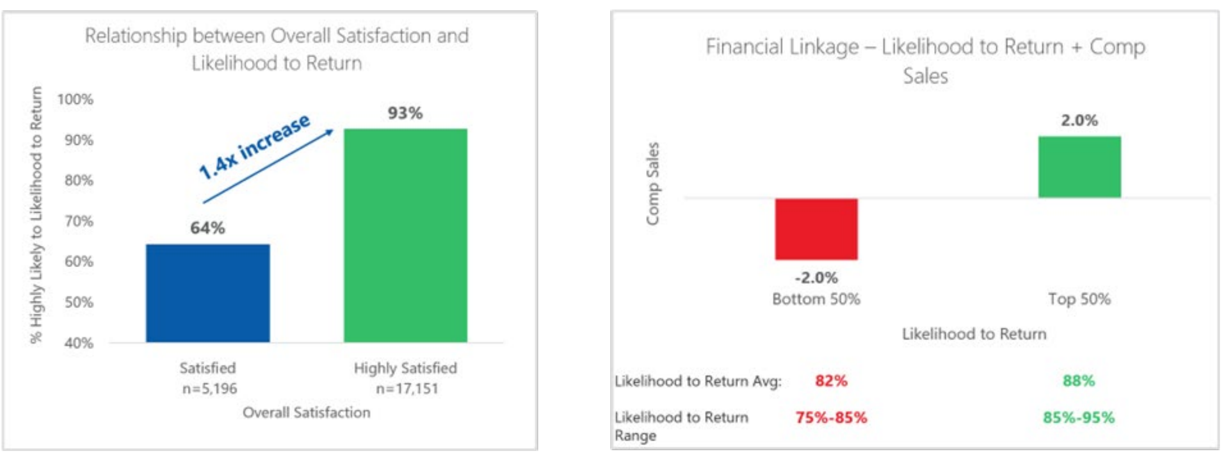
Shoppers' overall experience among NCG stores varies widely, with top-performing locations achieving scores of 90% overall satisfaction and our bottom-performing locations dipping as low as 35% (see Figure 5).

Figure 5. CX Survey Overall Satisfaction Unit Range



We know that overall satisfaction has a direct impact on sales. When shoppers are highly satisfied with their experience, they are more likely to return to the co-op and this results in sales growth.

Figure 6. CX Survey Relationship Between Overall Satisfaction, Likelihood to Return and Comp Sales



Key Drivers of Overall Satisfaction

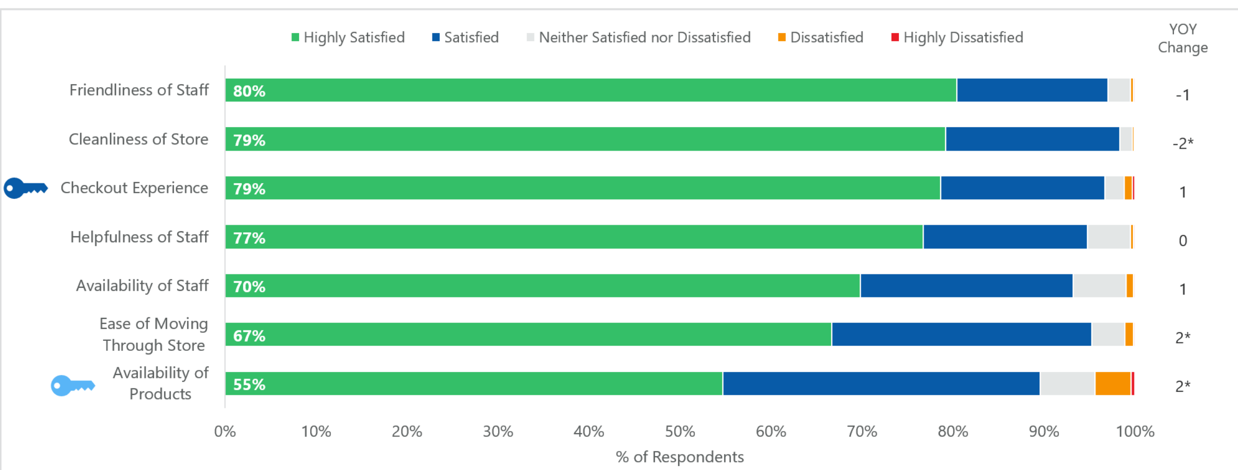
The CX program tracks seven key metrics that influence overall satisfaction and shoppers' likelihood to return (see Figure 7). While NCG co-ops outperform premium grocers on average in cleanliness, friendliness, checkout experience and availability of assistance, co-ops are not the top performer in any of these areas. Co-ops lag premium grocers when it comes to product variety, overall value and availability of merchandise.

Figure 7. CX Survey Benchmarking

	Cleanliness	Friendliness	Checkout Experience	Availability of Assistance	Variety of Merchandise	Overall Value	Availability of Merchandise
Top Performer	85%	83%	84%	75%	69%	60%	69%
Your scores	79%	80%	79%	70%	56%	39%	55%
	+6	+6	+8	+3	-7	-8	-5
Premium Grocery Avg.	73%	74%	71%	67%	63%	47%	60%
Bottom Performer	54%	57%	53%	50%	56%	31%	48%

Key drivers are an important focus for every co-op, as they have a significant influence on overall shopper satisfaction. Checkout experience and availability of products are particularly important for co-ops, as they are our two most influential drivers. Shopper satisfaction with their checkout experience is relatively high and improved over prior year. However, satisfaction with availability of products, while also improved from prior year, remains the lowest performing metric overall for NCG co-ops.

Figure 8. CX Survey Key Drivers of Overall Satisfaction



Availability of products is not always within co-ops' control. However, it is important to note that co-ops perform five points below the grocery industry average on this metric.

As Figure 9 demonstrates, co-ops have an opportunity to improve product availability in the evenings on most days of the week. Still, based on the volume of shoppers, co-ops' most significant opportunity to affect overall satisfaction and grow sales is to improve product availability in on Sunday and Tuesday morning. Key departments to focus on during these times are three of co-ops' most visited departments — grocery, produce and prepared foods.

Figure 9. CX Survey Availability of Product by Time and Day

Availability of Product by Time of Day and Day of Week
% Highly Satisfied

	Open - 11 AM	11 AM - 2 PM	2 PM - 5 PM	5 PM - 8 PM	8 PM - CLOSE
Sunday	52%	53%	56%	54%	51%
Monday	58%	54%	54%	52%	50%
Tuesday	51%	57%	53%	49%	46%
Wednesday	58%	58%	54%	53%	54%
Thursday	55%	56%	54%	56%	49%
Friday	56%	58%	58%	58%	53%
Saturday	55%	56%	56%	51%	46%

AVAILABILITY OF PRODUCT BENCHMARKS

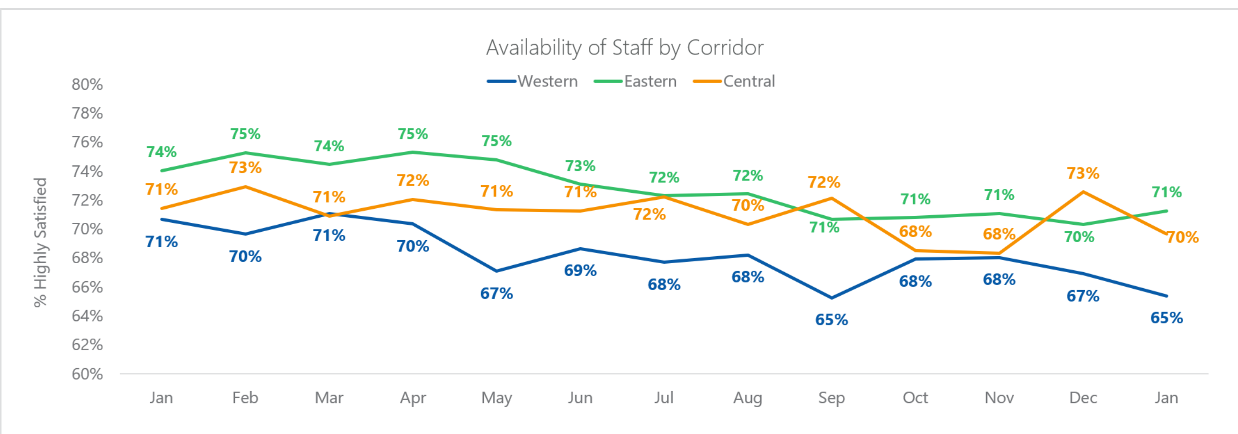
55%

Premium Grocery Average

60%

Service metrics — availability of staff assistance and friendliness of staff — are directly within co-ops' control. Looking at availability of staff throughout 2021, we observe a downward trend in all regions, with stores in the West lagging most significantly.

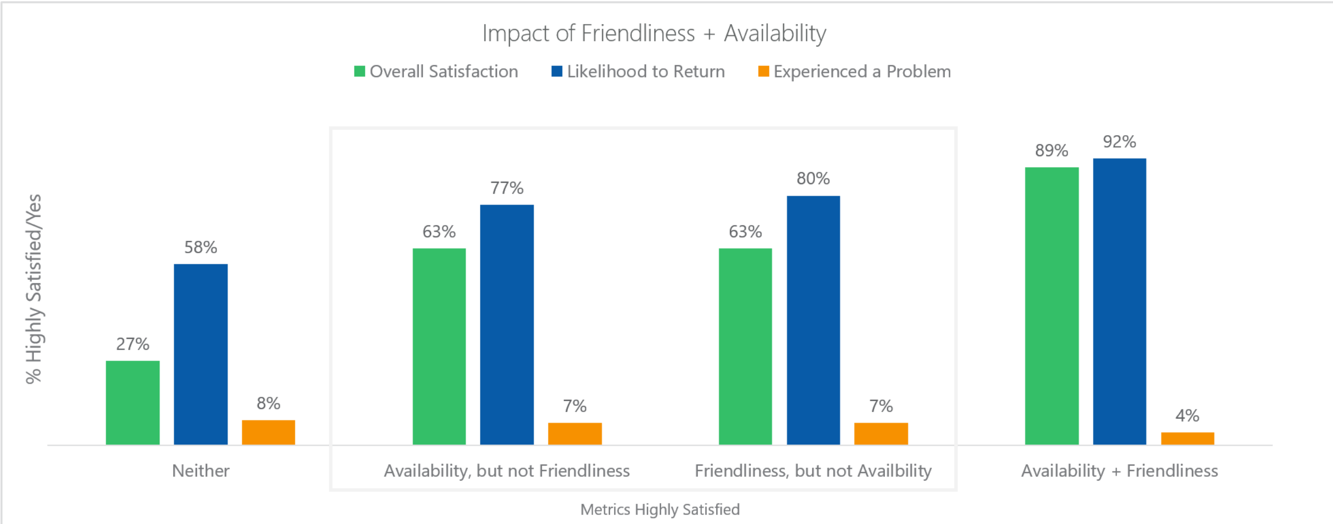
Figure 10. CX Survey Availability of Staff by Corridor



It's not enough for staff to merely be available — staff must engage customers on the sales floor and be friendly to ensure high levels of overall satisfaction and likelihood to return. When customers perceive staff as neither available nor friendly, co-op scores for overall satisfaction and likelihood to return are very low, with just 27% of shoppers saying they are highly satisfied with their experience overall and 58% saying they are highly likely to return.

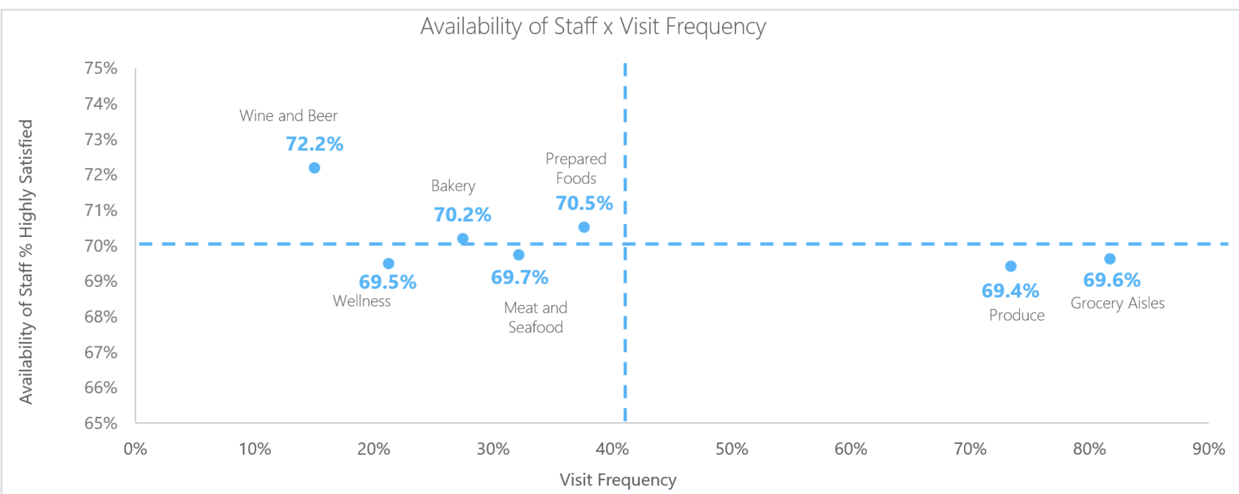
When staff are accessible and friendly, shoppers are not only more satisfied overall and more likely to return, they are also less likely to report experiencing a problem during their shopping visit.

Figure 11. CX Survey Impact of Friendliness and Availability of Staff



Among individual departments, the two departments visited most frequently by shoppers — grocery and produce — also score below average on availability of staff. Simply implementing a strategy of greeting shoppers on the sales floor will likely increase return traffic and may also serve to improve shoppers' perception of product availability.

Figure 12. CX Survey Availability of Staff by Department Visit Frequency



Department Trends

Center Store

Overall satisfaction with co-op center store departments has been considerably volatile over the past several years. Some of this can be attributed to the pandemic and ongoing supply chain issues.

Figure 13. CX Survey Overall Satisfaction with Grocery Departments

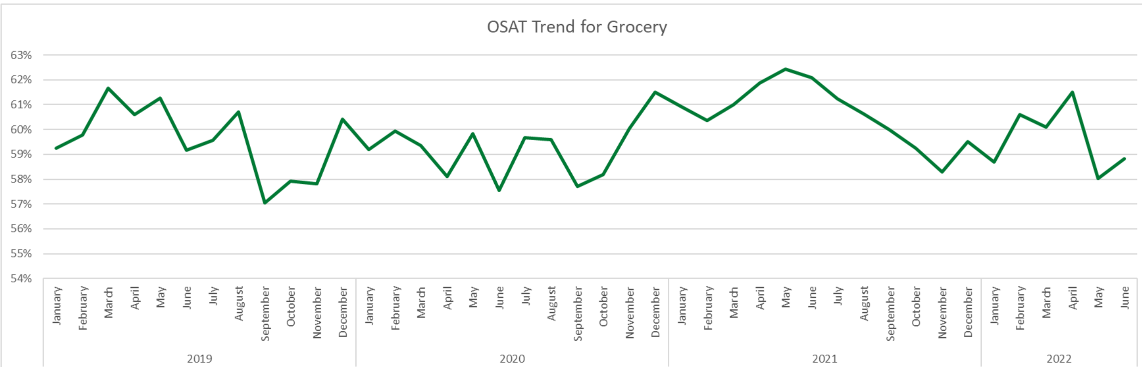
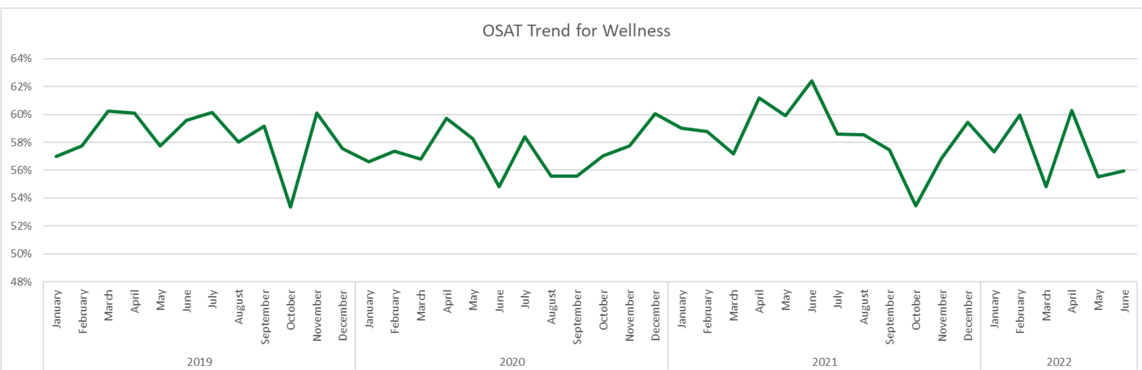


Figure 14. CX Survey Overall Satisfaction with Wellness Department



Fresh Departments

Overall satisfaction with co-op produce, prepared foods and meat departments has also been volatile, with meat and produce experiencing a clear decline.

Figure 15. CX Survey Overall Satisfaction with Produce Departments

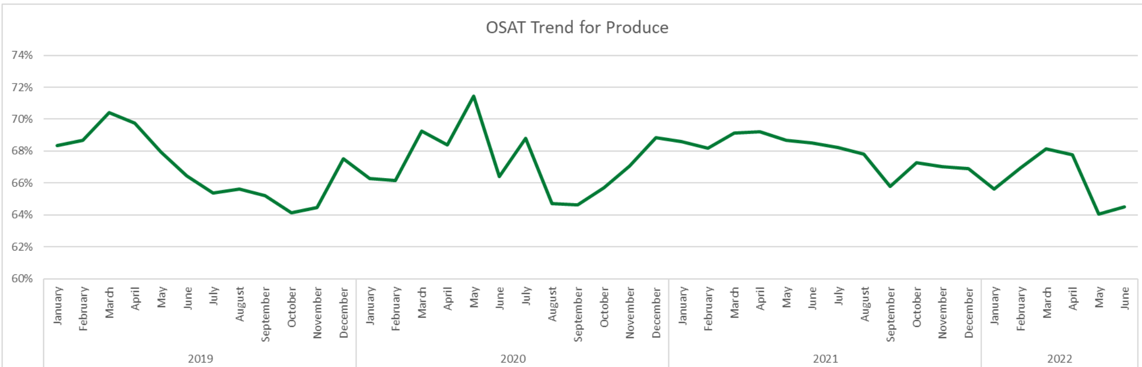


Figure 16. CX Survey Overall Satisfaction with Prepared Foods Departments

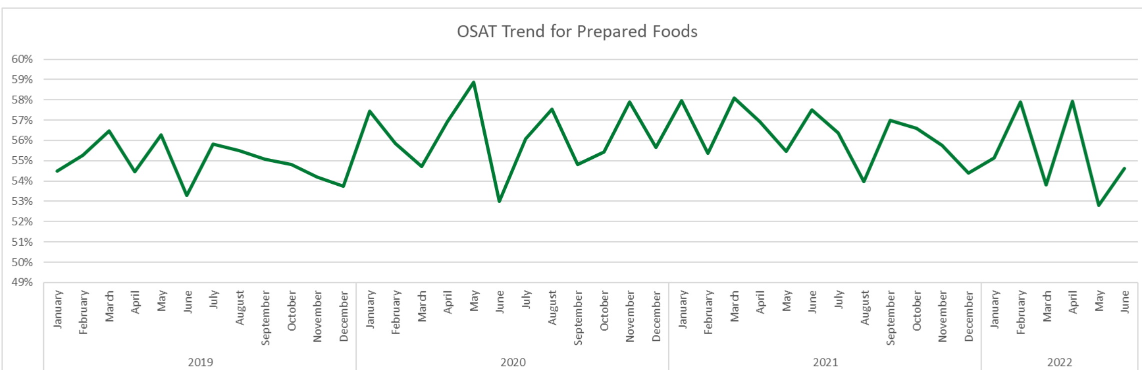
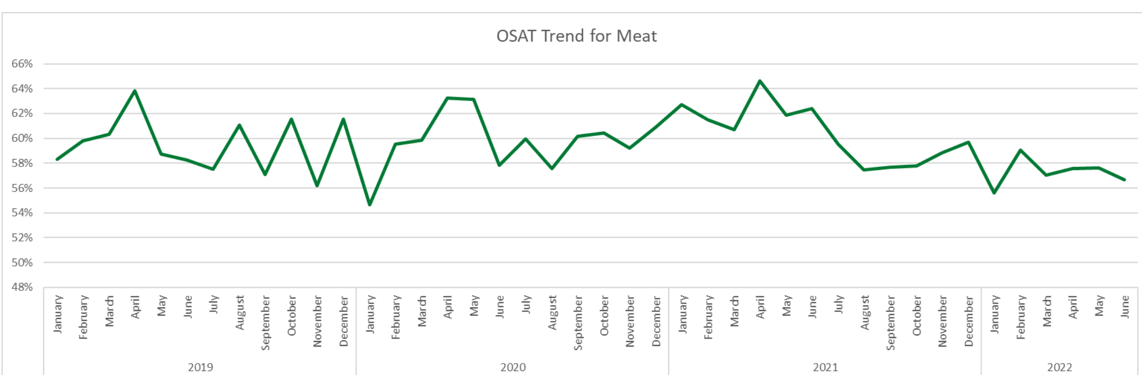


Figure 17. CX Survey Overall Satisfaction with Meat Departments



Shopping Habits

Price has always been one of the most important drivers for grocery shoppers. During COVID-19 as concerns shifted to health and safety, consumers developed habits that include spending less time in stores, visiting fewer stores less often, stocking up, eating more at home, and eating healthier.[2] More than in any other industry, consumers say that their behaviors in grocery have changed permanently.[4]

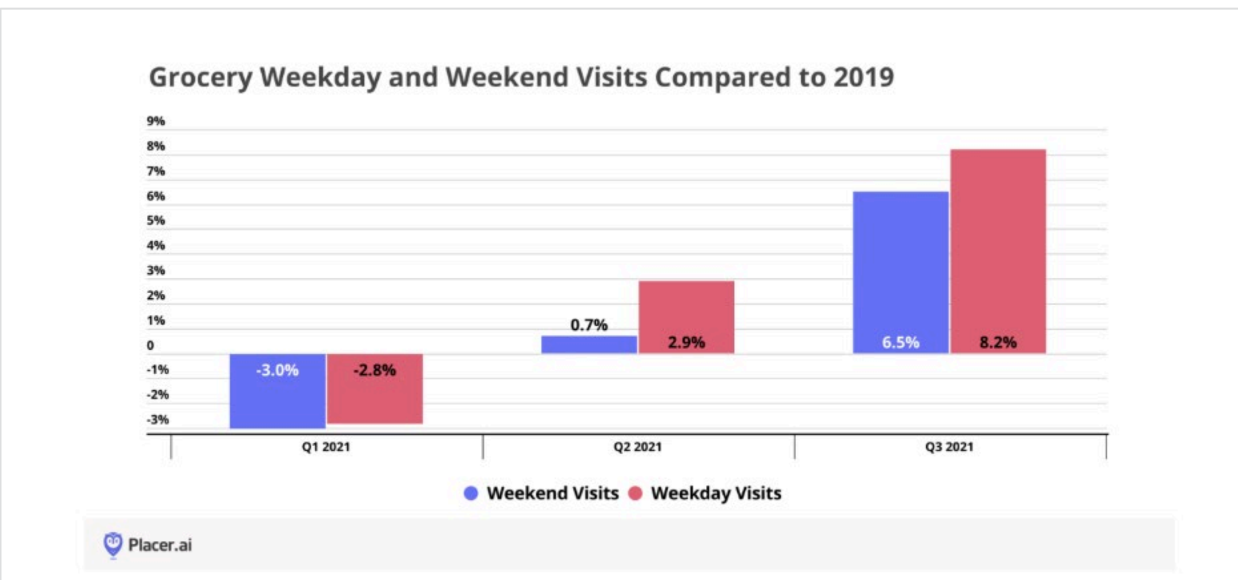
Store Visits

Grocery store visits in early 2021 were lower than pre-pandemic (2019) counts. However, grocery store visits compared to pre-pandemic counts rose during the third quarter of 2021 in anticipation of another COVID-19 wave as people attempted to stock up and focus on eating at home. The grocery store industry saw tremendous foot traffic growth during the first three weeks of August 2021, at 13.3%, 12.8% and 11.9% in comparison to those same weeks in 2019. Growth for grocery foot traffic then fell to 3% in September 2021.[5]

Though there were regional differences, almost all states saw an increase in visits compared to 2019 in each of the first three quarters of 2021, with most states reporting increases between 11% and 23%.[55]

Additionally, stock-up trips were more prevalent, with shoppers purchasing more food during their store visits.[6] Shopping time of day — which increased significantly for late-morning and midday hours during the pandemic — have largely returned to pre-pandemic patterns. However, as seen in Figure 18, the rise in weekday vs. weekend visits indicates a more lasting shift may have taken place due to people still working from home or dedicating their weekends to leisure and squeezing in food shopping during the week.[5]

Figure 18. Grocery Weekday and Weekend Visits Compared to 2019 [5]



Interestingly, dining away from home and trips to grocery stores seem to have a similar relationship (not inverse, as might be expected). In October 2021, when COVID-19 cases declined, restaurant visits *and* grocery visits rose.

Despite the many changes in shopping habits, shoppers still enjoy food shopping. Total weekly trips to the grocery store (2.8 per household) have returned to pre-pandemic levels. Younger consumers shop more stores more frequently and consider grocery shopping a labor of love.[3] Maintaining shopping's relevance as leisure, not just a functional need, will engage and attract more shoppers as inflation compels value-seeking.

Omnichannel Shopping

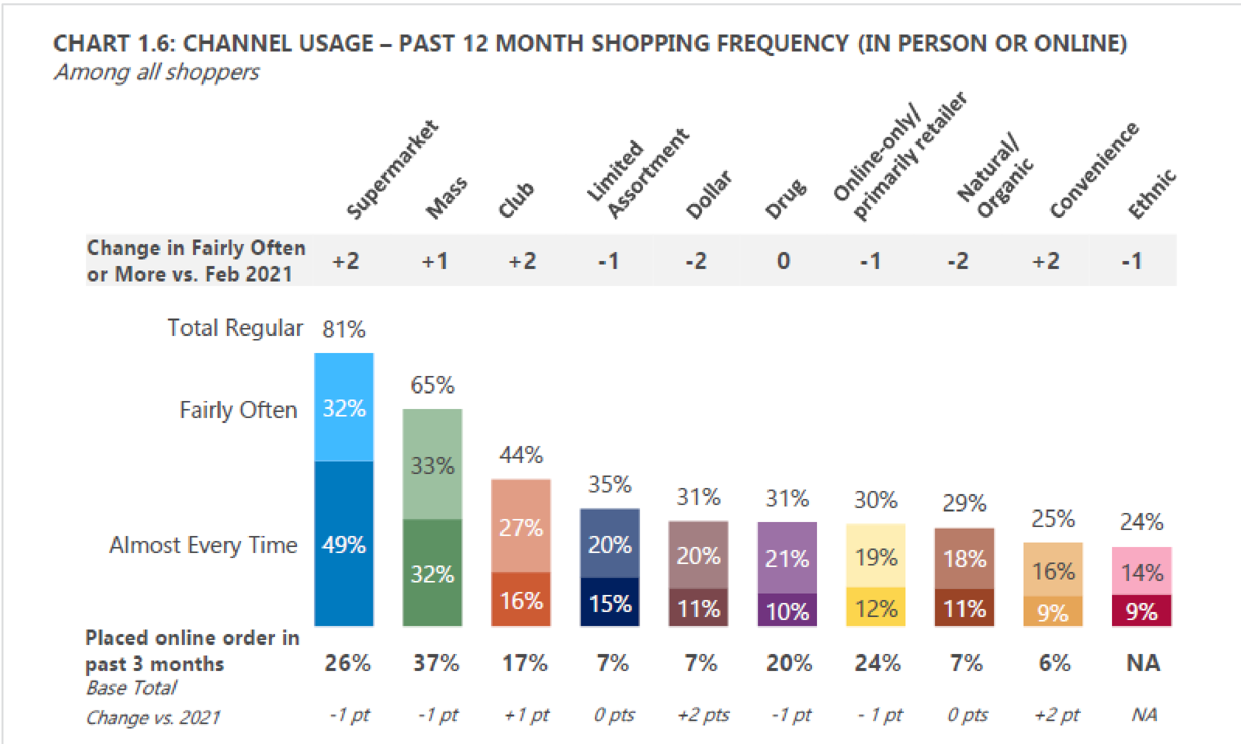
Retailers know that if they can turn an in-store shopper into a regular omnichannel shopper, they can increase that shopper's average monthly spend with them by 18%.[7]

Retailers like Amazon, Target and Walmart are currently leading the pack for e-commerce share through superior ease and reliability of their tech-based, automated shopping and ordering processes and the ability to perfect that process through economies of scale.[2]

Shoppers choose different stores for different needs, whether it be supermarkets, mass retailers, clubs or online options. They may have a go-to store for different shopping methods, too, such as in-person, same-day, shipped or curbside pickup.

81% of consumers still shop for food most frequently at supermarkets. Mass retailers come in second with nearly two-thirds of shoppers using the channel regularly, and a steady number of regular shoppers utilize online-only retailers (see Figure 19). Consumers continue to use multiple channels as grocery sources, but the role of each store has changed.[3]

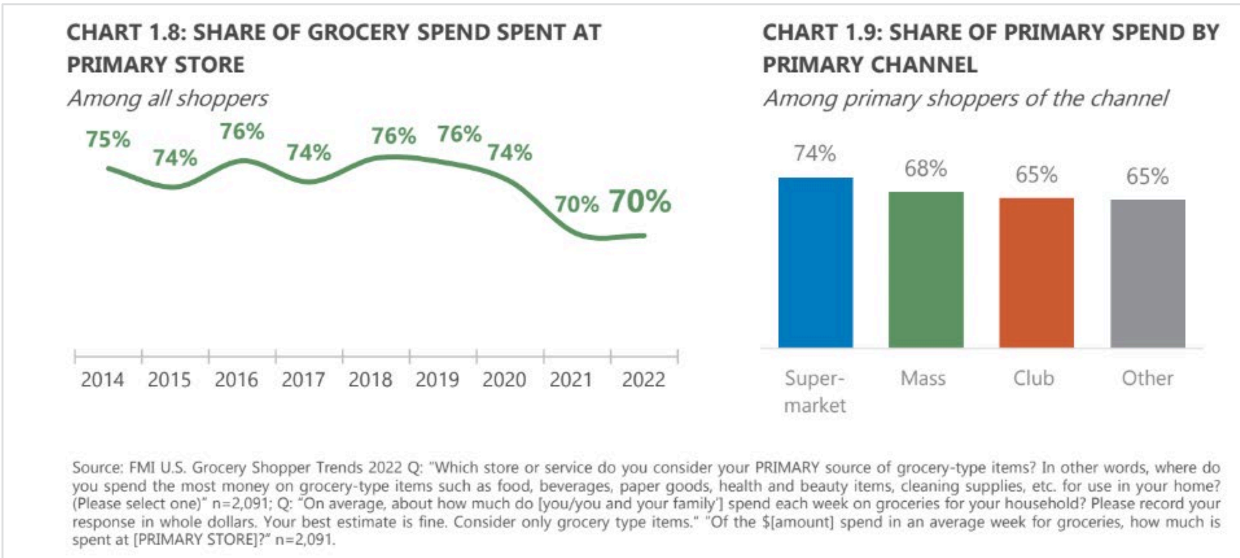
Figure 19. Channel Usage - Past 12 Month Shopping Frequency[3]



While supermarkets and mass retailers remain the dominant primary stores for food, the club channel has benefitted from shoppers' focus on buying in bulk to address inflation, growing their share of the market the past three years.

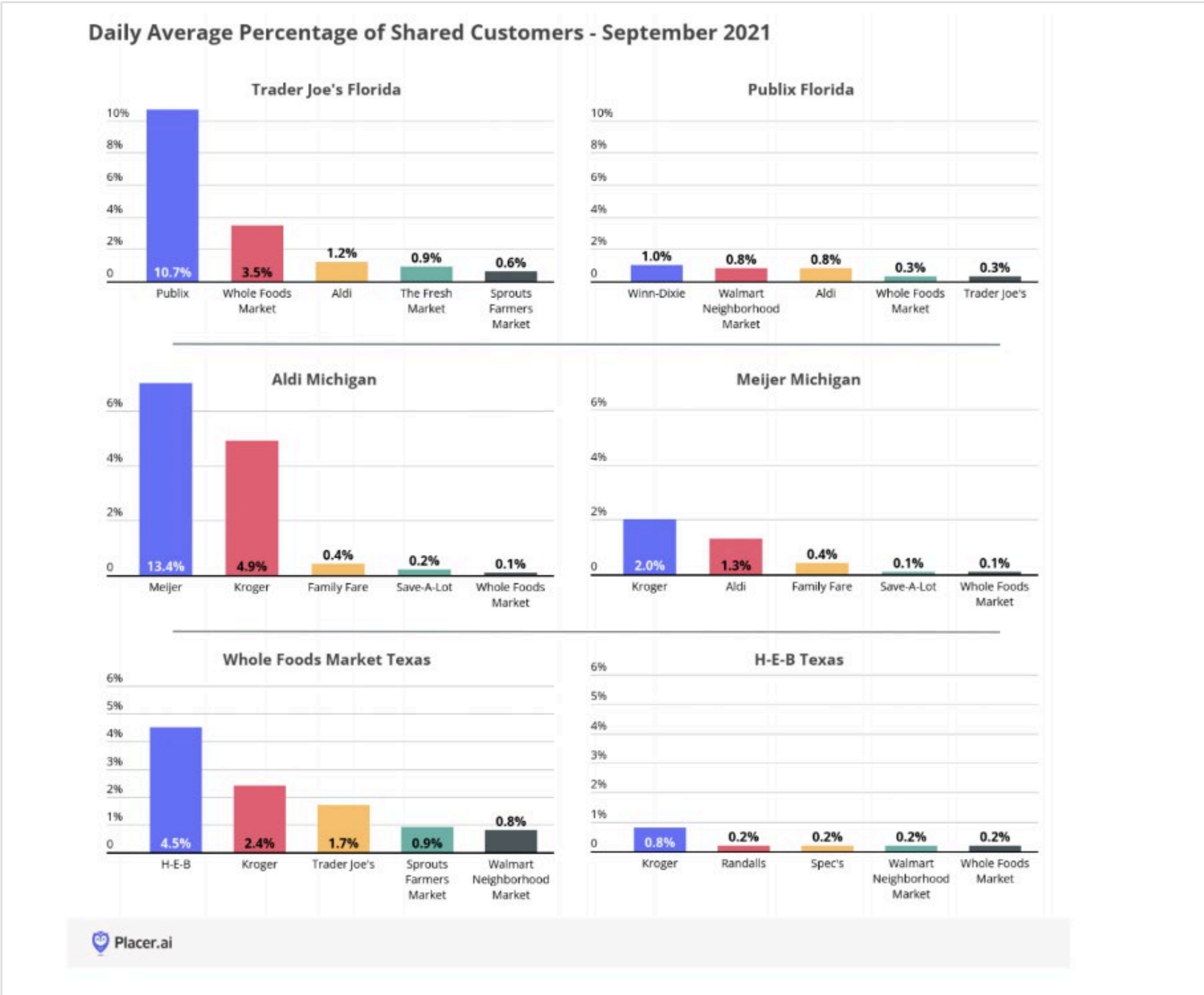
As seen in Figure 20, shoppers are spending 5% less of their grocery budgets at their primary store (whatever it may be) now than they did in 2014.

Figure 20. Share of Grocery Spend at Primary Store[3]



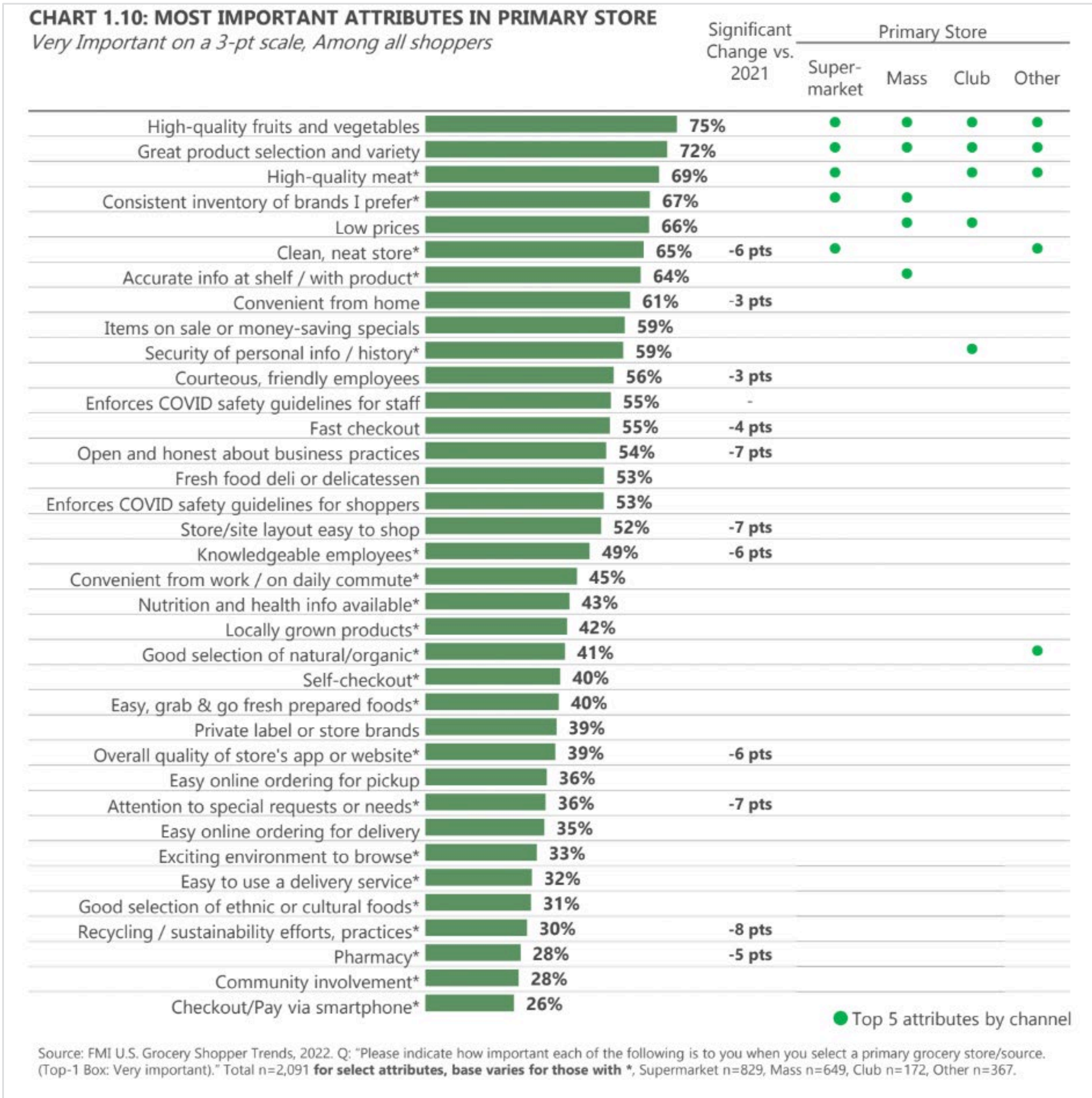
Data from Florida, Michigan and Texas — states with strong regional grocery players in Publix, Meijer and H-E-B, respectively — indicate that customers may shop mass retailers or national chain stores for specific grocery needs (stocking up, picking up forgotten items, or obtaining a particular bargain), but they still do their main grocery shopping at the leading local stores. By recognizing the unique pull of their brand, chains can focus on the core elements that attract visits.[5]

Figure 21. Daily Average Percentage of Shared Customers in September 2021[5]



While perceived quality and selection are still paramount in choosing a primary store, mass and club channels are attracting customers with low prices, as shown in Figure 22. Across channels, shoppers look for high-quality fruits and vegetables as their top priority, followed by great selection. One exception to this is those who choose the club channel as their primary channel and list high-quality meats as their top priority. Low price is a top-five concern for mass and club shoppers, but not those whose primary store is a supermarket.[3]

Figure 22. Most Important Attributes in Primary Store [3]



E-commerce

The digital experience for shoppers today varies in when, where and how they use technology — from automated self-checkout to skipping the store entirely. Consumers are creating new shopping habits utilizing digital options on a trip-by-trip basis or as a regular routine.[3]

E-commerce continues to be the safe and occasionally more convenient alternative to in-store shopping trips for those who buy online at least some of the time — around half of American customers. Although the other half of the U.S. grocery shopping population does not buy online and has no plan to do so, digital's share of total grocery sales more than doubled during the pandemic, from approximately 5% to around 10% of sales. That share has remained steady and appears to be holding into 2022. Last fall, consumers predicted they would give back one-third of their e-commerce sales to brick and mortar, but that didn't happen.[2]

As adults become more comfortable with the technology and the expanding availability of services, online shopping steadily grows. The pandemic encouraged many first-time online shoppers, and those with previous online shopping experience tried new services and methods.

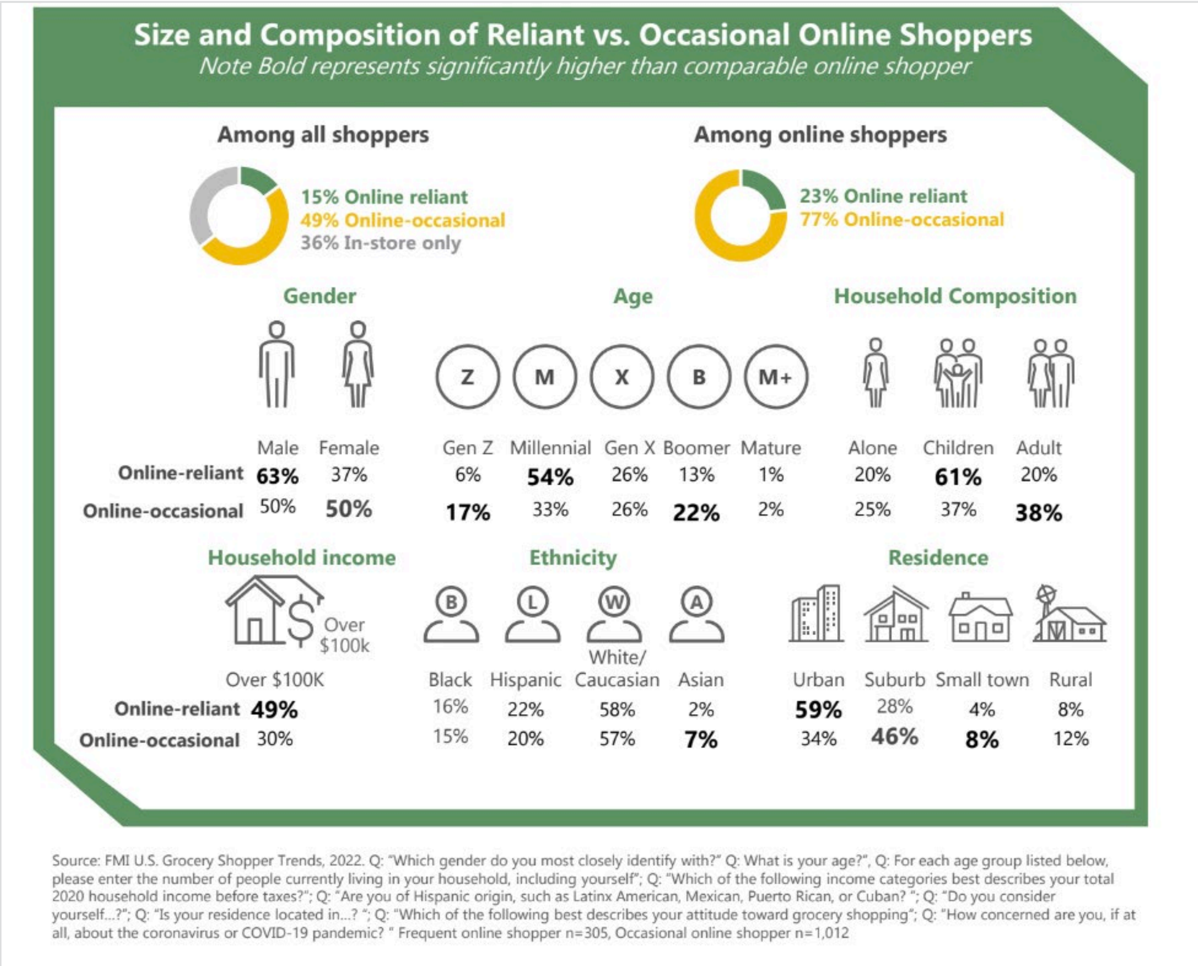
Online shoppers perceive e-commerce options to be superior for saving time and staying safe during the pandemic. Of those who use online services, 15% shop online "almost every time," and 24% order once a week or more often.[3]

For consumers specifically choosing natural products, shopping online at least monthly rose 42%, and weekly online shopping rose 20% over the past three years.[1]

Demographic Factors

Generational differences shape the way people shop. Continuing online shoppers are likely to be younger, have bigger families and higher incomes, and live in more urban settings than non-online shoppers. Millennials spend 26% of their grocery bill online.[3]

Figure 23. Size and Composition of Reliant vs. Occasional Online Shoppers [3]



Fulfillment Methods

Online shoppers using at least two fulfillment methods for their grocery orders choose immediate delivery for only about one out of ten orders. 22% of those shoppers choose two-hour delivery and one-fifth of orders involve next-day delivery.

Mass retailers that offered curbside and in-store pickup methods pre-pandemic were able to adapt more rapidly to address fulfillment needs during the pandemic.[3]

Deal Hunting

While third-party apps and digital tools such as Flipp and Instacart offer digital coupons and a search feature to find the lowest prices on specific items, 43% of online shoppers see online and in-person as equally good at finding the best value.[3] Still, customers generally have a better perception of their e-commerce shopping experience using retailers' own platforms for both the shopping and delivery phases.[2]

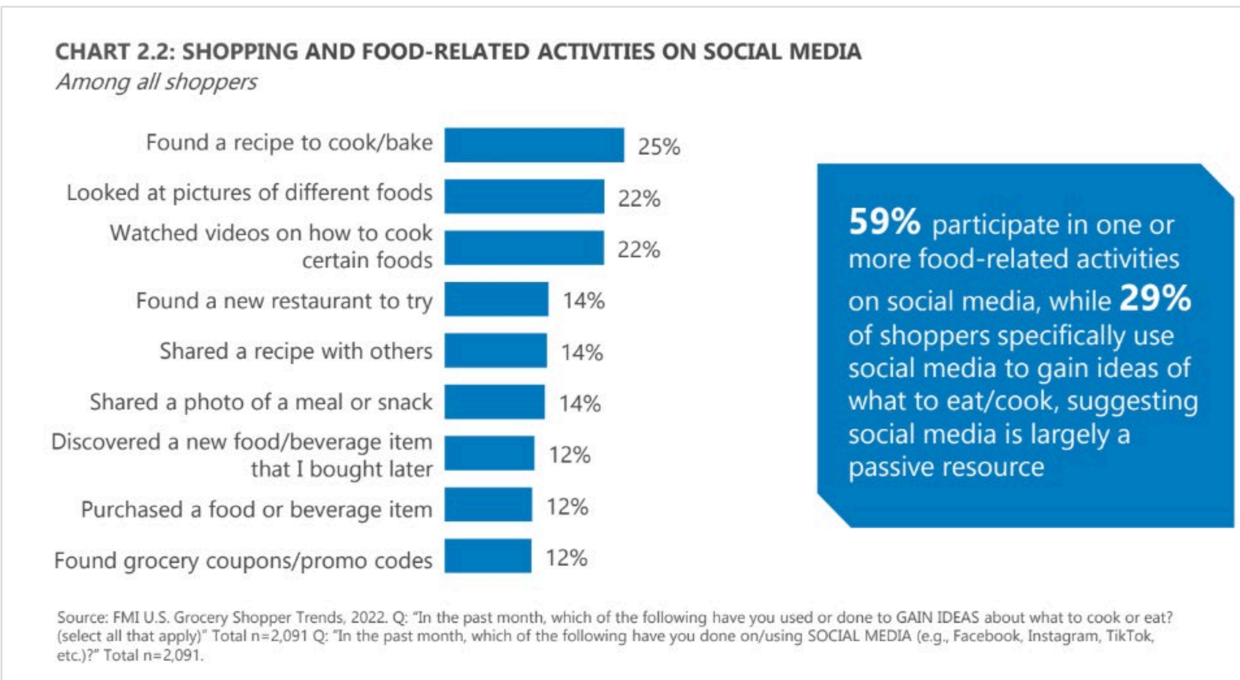
Most shoppers understand that limiting public contact and saving time through digital shopping comes with a trade-off of control in choosing items to get what the consumer might consider the “best quality” product.[3]

Social Media Influence

In terms of food marketing, today’s social media is a seemingly endless presence of products, recipes, and even chefs. Consumers use digital tools through passive consumption of images and information and through active searching of websites, food blogs and search engines.

Shoppers used social media to gain ideas about what to cook or eat, either by finding recipes (25% of respondents), looking at food pictures (22%), and/or watching how-to videos (22%). Only 12% found grocery coupons or promo codes on social media.[3]

Figure 24. Shopping and Food-Related Activities on Social Media[3]

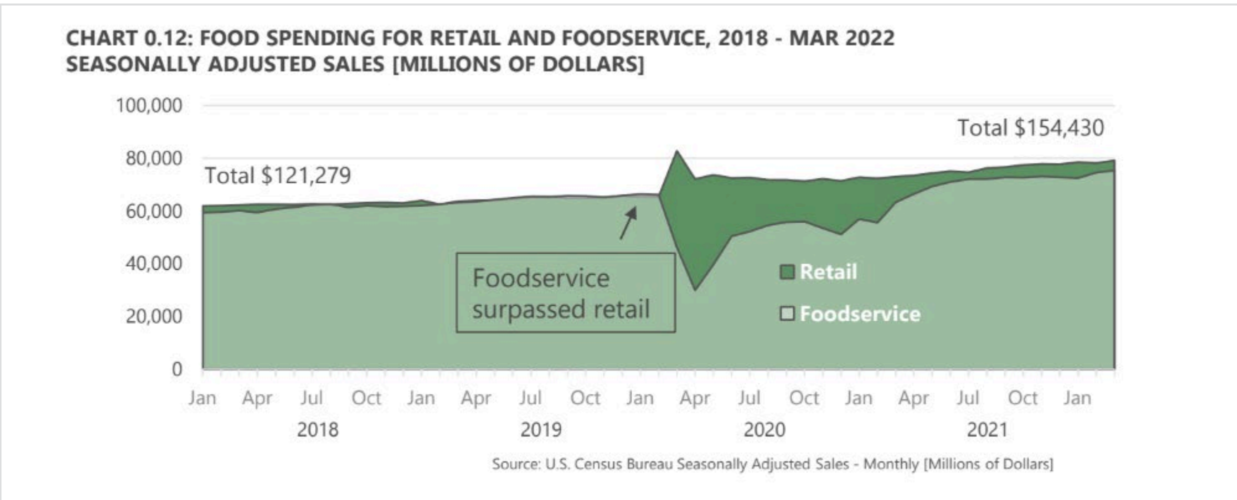


Eating and Health Trends

Eating Occasions

Despite the unprecedented changes in the U.S. during 2020, Americans participated in the same eating occasions as they did pre-pandemic. *Where* they chose to eat, however, shifted significantly to eating at home — more than 80% of the time. Dedication to cooking did not last throughout the year, as consumers began to rely more heavily on restaurants and delivery products. Food service has regained much, though not all, of its pre-pandemic share.[3]

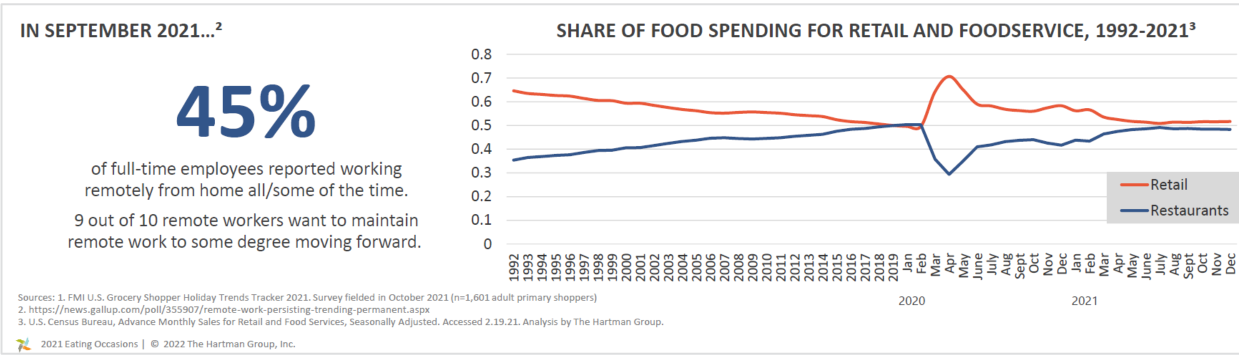
Figure 25. Food Spending for Retail and Foodservice, 2018-March 2022[3]



While food service overall (including grocery store food service) has not returned to pre-pandemic levels, restaurant-sourced meals (takeout, delivery and in-restaurant dining) are exceeding even pre-pandemic levels. In 2019, restaurant-sourced food accounted for 21% of meals. That number dropped to 19% in 2020 and now represents 24% of eating occasions. Consumers turning to restaurant-sourced food now have increased expectations for healthiness (39%) and enjoyment (56%).[6]

As of the fall of 2021, 52% of U.S. shoppers were still adjusting both shopping and eating routines to minimize risk of COVID-19, as 25% of people were still exclusively working from home and 20% were working from home at least part time.

Figure 26. Share of Food Spending for Retail and Foodservice, 1992-2021[6]



While eating away from home has rebounded since 2020, at-home eating remains high for those working from home.[6]

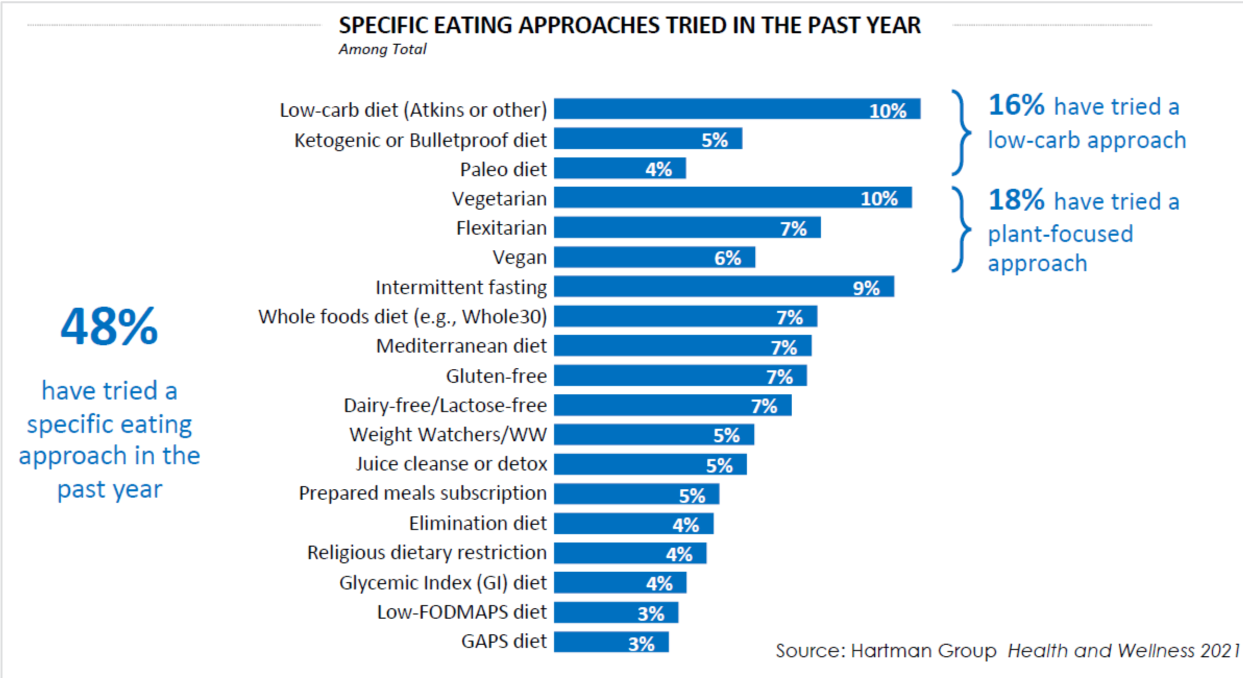
A rise in restaurant food sourcing fulfills multiple eating occasions for consumers and provides an opportunity for co-op prepared foods departments to capitalize on healthy, convenient products that require little or no recipe assembly and potentially leave the consumer with leftovers for future meals.[6]

Eating Approaches/Diets

Consumers expect government to play a role in safety, but they hold themselves responsible as the ultimate decision-makers when it comes to nutrition. Emboldened by easy-to-find online advice, today's consumers self-assess their health and determine their nutritional needs in an effort to experiment with ways of eating that meet their physical needs and fit their lifestyles and values.[8]

Approximately half of American adults try out at least one specific approach to eating in a given year, including low-carb, vegetarian, intermittent fasting, Keto and others. Outside these common approaches, consumers adopt a variety of individual strategies, from limiting sugar or carbs to seeking foods that are high in protein or planet-friendly. Even those not adhering to a strict diet regimen may seek diet-specific labels when they align with the attributes they desire.[88]

Figure 27. Specific Eating Approaches Tried in the Past Year[8]



Consumers tend to view the healthiest foods as those that are fresh and subject to the lowest possible levels of processing. While specific eating approaches vary greatly, a desire for fresh, less-processed foods remains quite consistent across approaches.[9]

Ingredients

Today's consumers are looking for healthful ingredients with properties they recognize as beneficial to better health. The ingredient list should:

- Be short and recognizable (e.g., if you can't pronounce it, you might not want it)
- Contain inherent positives (e.g., fiber, protein, vitamins, antioxidants, potassium and iron)
- Have an absence of "red flag" ingredients (e.g., preservatives, hormones, artificial colors and flavors)
- Be new and interesting (e.g., global flavors and unique ingredients)
- Connect to the local, regional, or indigenous food cultures[10]

Certain ingredients are particularly relevant for people following specific dietary approaches. For example, shoppers looking for Keto-friendly or low-sugar foods may look for monk fruit (luo han guo), stevia or erythritol.[1]

In this health-conscious climate, consumers also turn to food as medicine. Sales of certain mushrooms, cider vinegar supplements and elderberries are just a few examples of products showing significant sales growth led by health-conscious consumers. These three items grew 59%, 124% and 189%, respectively.[1]

Figure 28. Consumers are Turning to Food as Medicine[1]

Consumers are even turning to **Food as Medicine**

INGREDIENTS	SALES	GROWTH
Cider Vinegar Supplements	$34 MM	+124%
Collagen Products	$19 MM	+25.3%
Elderberry	$32 B	+189.6%
MCT	$157 MM	+24.2%
Mushrooms (Reishi, Chaga, etc)	$23 MM	+59.1%
Ashwaganda	$14 MM	+165.5%
Maca	$12 MM	+28.8%

Excludes Alcohol, VMS, Pet, Body Care, Medicine, General Merch categories

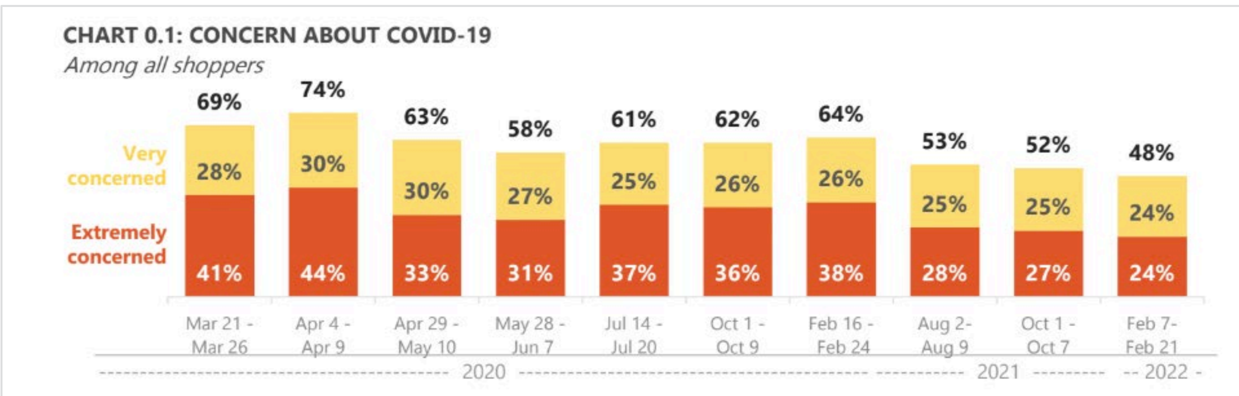
Source: SPINS Natural Enhanced Channel, SPINS Conventional Channel (powered by IRI) data 52 Weeks Ending 3.20.22

Shopper Concerns

Continuing Concern for COVID-19

Consumer food purchases continue to be affected by COVID-19 concerns. In a report from FMI, 85% of responders expressed concern about access to food and 56% had concerns about getting or spreading illness while food shopping. Down only slightly from October 2021, 48% of shoppers still reported being extremely or very concerned with COVID-19 in February 2022. Half of people perceive outdoor dining as acceptably safe (unchanged since October), and while 61% see in-person shopping for food as safer than it was, shoppers' confidence lessens to 43% with no mask requirements.[3]

Figure 29. Concern About COVID-19 Among All Shoppers[3]



Price Concerns

Shoppers spent 4% more on groceries per week per household thus far in 2022. 53% of responders report prices rising on foods they prefer.[3] 24% of consumers say they've had to "rethink" how they shop for groceries.[11]

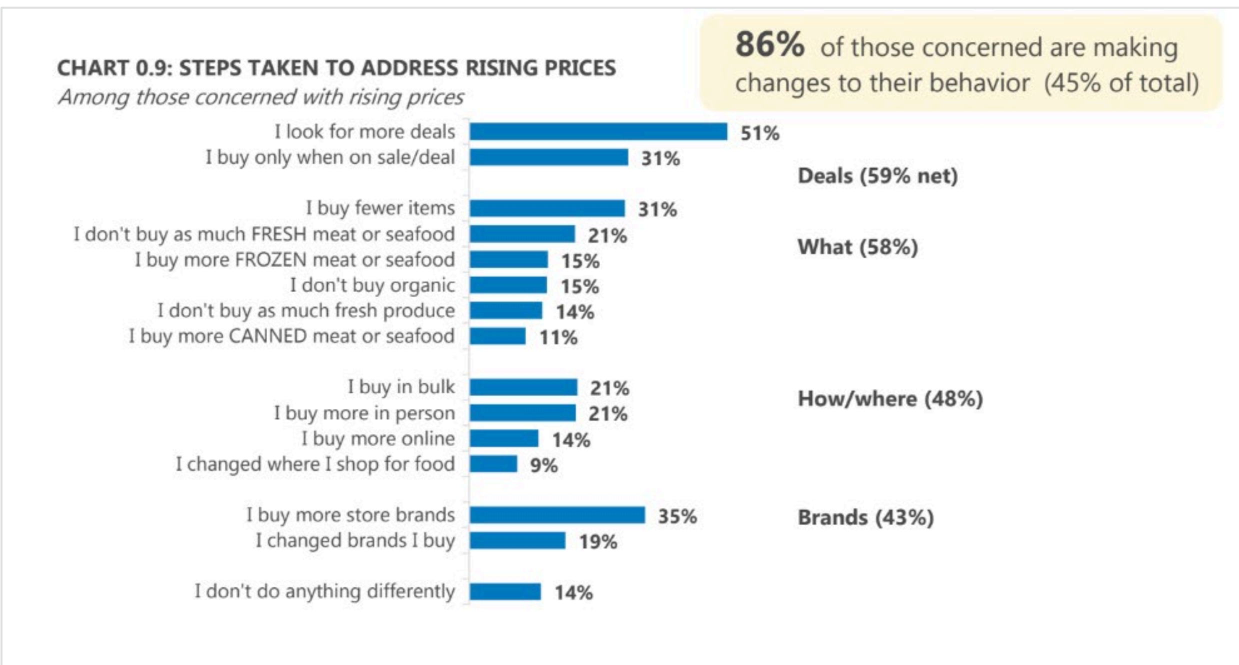
Figure 30. How Have Rising Prices Impacted Your Ability to Buy Grocery Items That You Normally Shop For?[11]

The past 12 months have seen retail price increases in meat, poultry, fish and eggs (+14.3%) and fruits and vegetables (+7.8%).[1]

Price increases will likely force consumers to be more discerning, paying more only for products they deem worthy of the experience they seek. All food prices are predicted to increase 7.5% to 8.5%. The price of food away from home is predicted to increase 6.0% to 7.0%, and food-at-home prices are predicted to rise 8.5% to 9.5% in 2022.[11]

To combat these higher prices, shoppers are using a variety of strategies. 68.4% are shopping at different retailers seeking better prices on items affected by inflation.[1] Buying more store brands is a step 35% of shoppers take, and shoppers in low-income brackets are switching from fresh to frozen meats.[3]

Figure 31. Steps Taken to Address Rising Price[3]



Supply Concerns

Supply side pressures have impacted grocers especially hard. Empty grocery shelves are a clear sign that moving goods from farms to factories to stores has been a huge challenge.[2] Consumers are taking notice and 45% say items they need are out of stock.[3]

Value: Beyond Price and Quality

Price and quality have long been and remain top grocery concerns for consumers. However, securing a strong emotional connection with consumers creates value that helps retailers keep more customers coming back long-term.

In recent years, retailers' digital utilization, promotions/rewards, convenience and speed have become increasingly influential on shoppers' perceptions of value.[2] The RPI (Retailer Preference Index) approach examines what drives an emotional bond with the consumer — and ultimately a retailer's financial success. RPI considers these factors to be "value amplifiers" and found them to be rising as predictors of retail success.

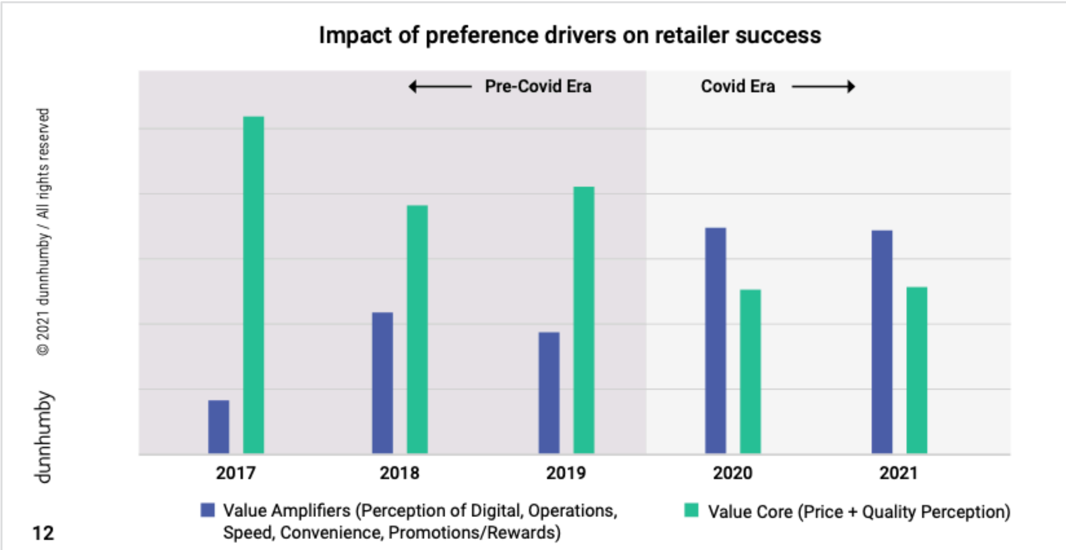
Figure 32. Primary Drivers of Value[2]

US GROCERY RPI

RPI Pillar	Primary Drivers in Pillar
Price	Lower prices than other stores, fair prices on organic/natural items, private brand
Digital	Easy ways to shop online or with an app, usefulness of information provided
Quality (Assortment + Store Experience)	Product freshness and quality, private brand, prepared foods, natural and organic, product variety. Store experience includes customer service, look and feel
Operations	Out of stocks, price consistency, right products, clean stores
Convenience	Right product variety, convenient locations and ability to do all shopping at one store
Speed	Easy to get in and out quickly, speedy checkout
Discounts, Rewards, and Information	Relevancy and ease of redeeming discounts/coupons, rewards for shopping, provides relevant information

Though retailers with a competitive advantage in base price clearly outperform retailers that have a competitive advantage in promotions and rewards, the dominance of price and quality has weakened in the COVID era. RPI "value amplifiers" are surpassing the "value core" factors of price and quality in growth related to a perception of overall value. Retailers have more freedom to reinvent themselves with a broader set of features. The biggest opportunity for traditional regional grocers is to improve in digital.[2]

Figure 33. Impact of Value Drivers on Retailer Success[2]



Concern for Workers and the Broader Community

There is a direct correlation between happy employees and happy customers. Customers notice when employees are more engaged, and more engaged employees lead to a workforce that is more motivated to learn and to sell and maintain products or offerings. Happy employees pay their enthusiasm forward to customers, prompting a positive cycle of good results.[2]

Pandemic realities shed light on the indispensable nature of food industry workers. Four in five consumers are aware of issues corresponding to providing a living wage for food retail and food service workers. For 35% to 40% of consumers, good wages, safe working conditions and employee benefits are important purchase criteria. 61% of consumers look for products from companies that support social justice causes and 63% have boycotted brands for environmental, social or labor reasons.[12]

In 2021, 84% of parents with children under age 18 made an effort to help their community in the past year, including tipping service workers more, buying from local farmers and patronizing minority-owned restaurants and grocery stores.[1] Shoppers want to know they are doing good in their communities with their purchases.

Employee Safety

Customers want to support the communities and people who are associated with product sourcing and production.

- 39% of consumers consider safe working conditions for employees when shopping for food
- 36% expect good benefits and wages for workers
- 34% support farmer livelihoods
- 33% are concerned with supporting the local community[10]

Diversity
A company's ability to foster a sense of belonging among its employees by promoting diversity and inclusion has become a key issue.[2] Shoppers seek brands that support inclusiveness, with 9% seeking women-owned, 9.9% seeking minority-certified and 53.5% seeking veteran-owned brands.[1]

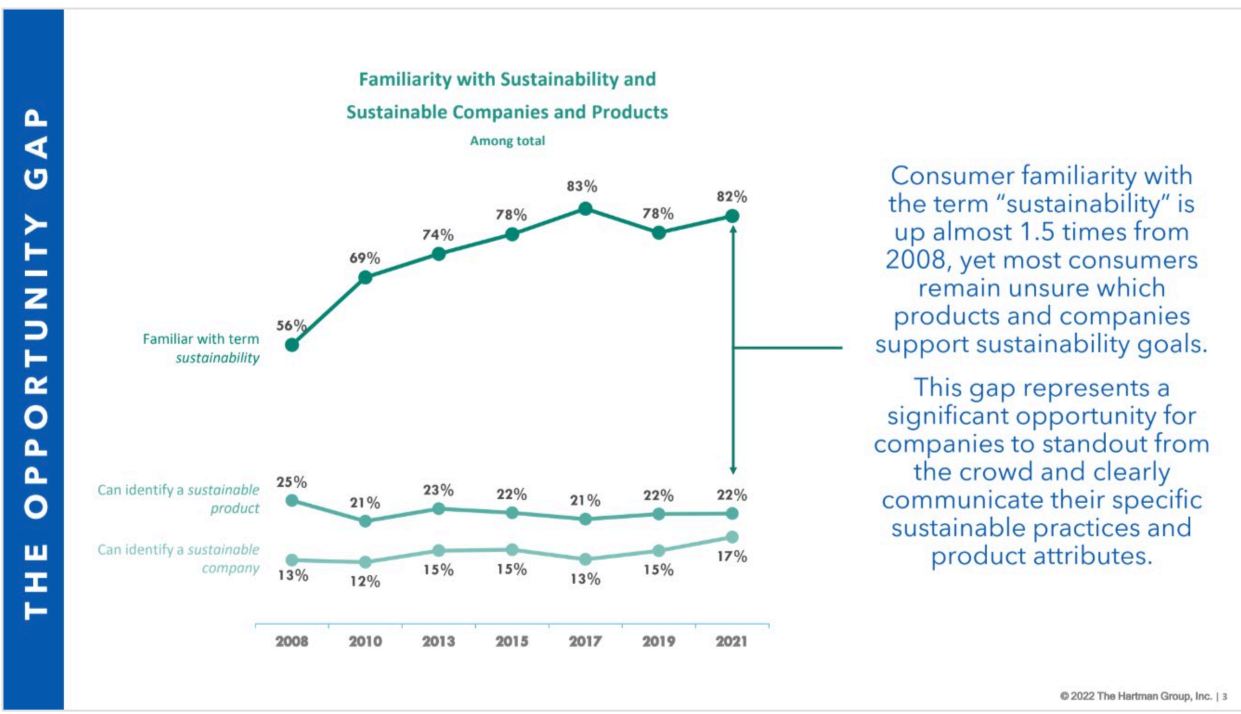
Support for Farmers
More than one-third of consumers connect their food and beverage purchases to providing financial support for farmers.[12] Roughly 25% of Americans made an effort to buy food from local farmers in the past year.[1]

Food Insecurity
Food insecurity and the threat of insufficient access to food is an important issue for food companies to consider. 59% of consumers are very or somewhat concerned with food insecurity as a societal concern.[12]

Sustainability

Despite the growth in familiarity with the term "sustainability," consumer confidence in identifying companies and products that fit that definition is lacking.[12]

Figure 34. Familiarity with Sustainability and Sustainable Companies and Products[12]



Based on the attitudes of younger consumers — Millennials in particular — sustainability is one purchase criterion that will continue to grow in importance. Companies that are transparent in declaring their values in this area will have an advantage.[12]

Figure 35. Customers Who Consistently Base Purchasing on Sustainability[12]

Packaging

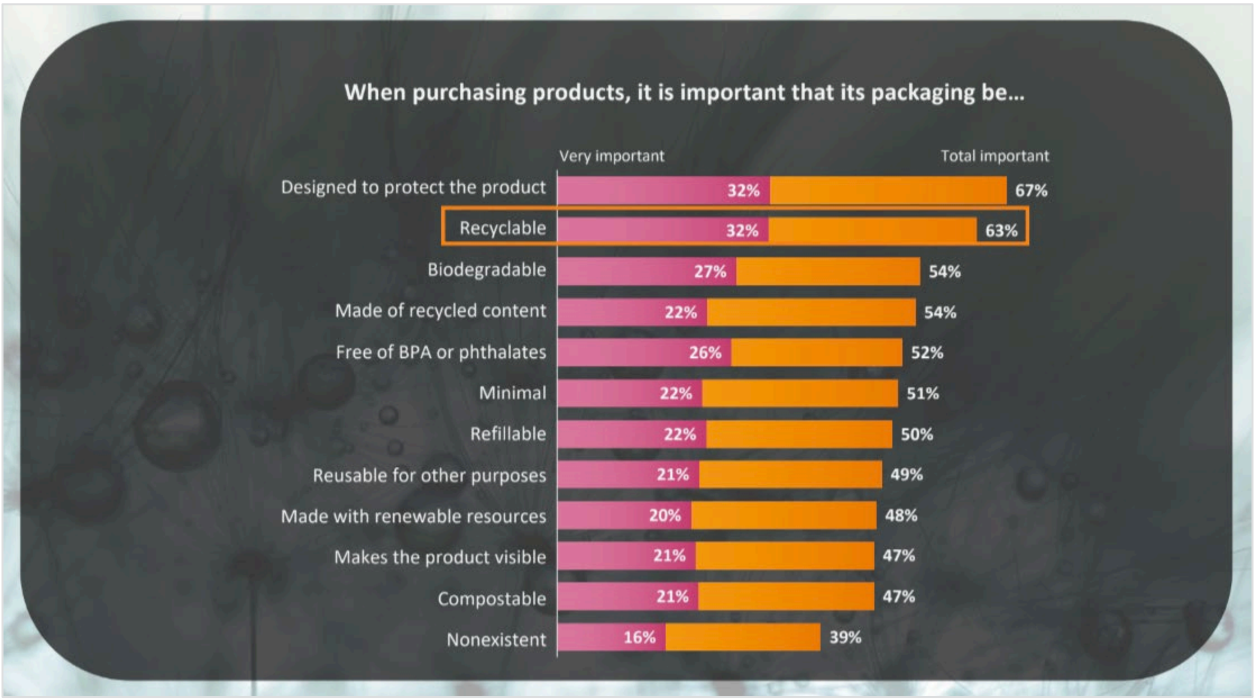
The focus on packaging includes looking for minimal packaging and natural colors.[9] Consumers are paying attention to the recyclable nature of packaging and the amount of plastic used.

63% of consumers consider themselves avid recyclers and 83% are very concerned about how much single-use plastic is used daily. After protecting the product, recyclability is the most important packaging consideration.[12] As more consumers resume work, school and social routines, the demand will increase for sustainably packaged foods and beverages suitable for on-the-go lifestyles.[6]

Engaged consumers have been disheartened recently by headlines exposing where our recyclable packaging actually ends up when it is not recycled. 73% of consumers want to use less plastic, but don't know how. Companies that rethink the need for packaging and that make recyclable packaging a priority may have the upper hand for sustainability-conscious consumers.[12]

Packaging is the most obvious indicator of whether a brand truly means what it claims about environmental sustainability.[10]

Figure 36. Important Attributes of Packaging[10]



Climate Change

Four in ten Americans believe their own choices about food and beverage purchases can have an impact on the environment.[1] Consumers want companies working to tackle pollution, address climate change and protect natural resources. To 41% of consumers, climate change is one of the most important sustainability issues right now.[12]

Agriculture

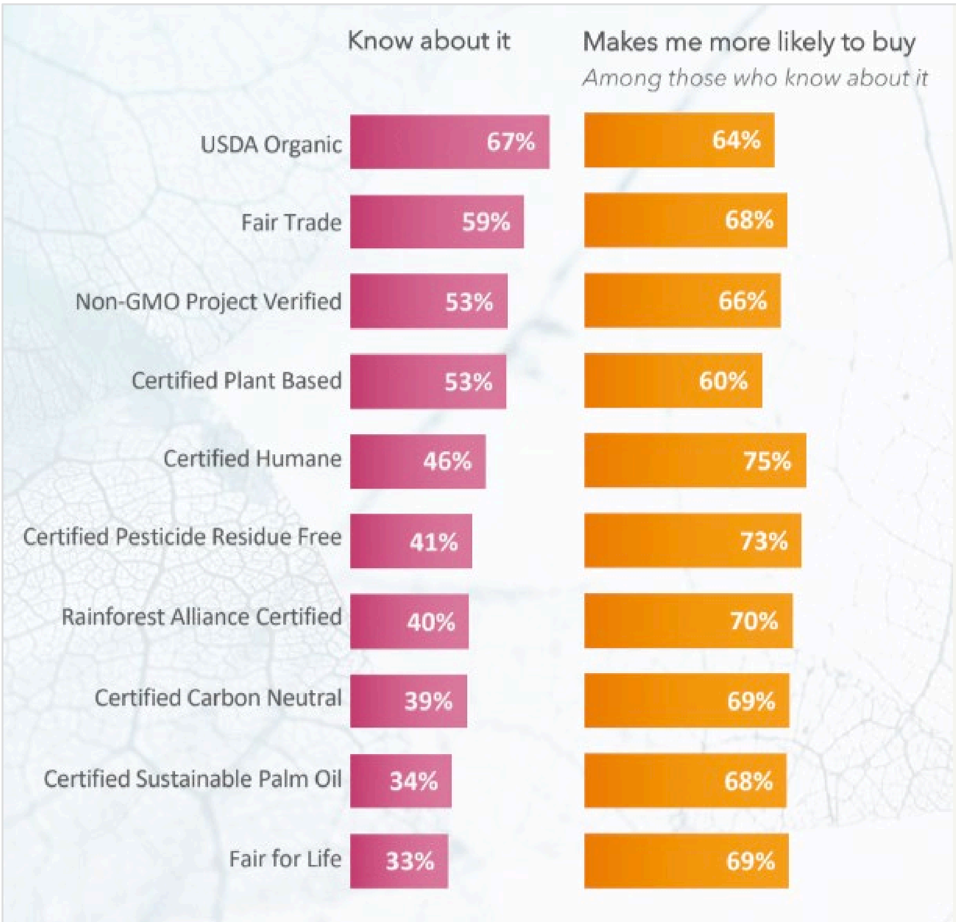
Customers continue to prioritize organic — mostly for products that have a clear connection to farms, but also products they consume frequently or in large quantities such as beverages and snacks.[13]

Among buyers of organic products, several items top the list of categories purchased:

- Fresh produce — 60%
- Beverages (not including dairy milk) — 51%
- Refrigerator dairy products — 48%
- Snacks — 43%
- Eggs — 36%

What consumers know about how a product is grown or made plays an important role in the likelihood of purchase.[10]

Figure 37. Production Processes and Certifications are Indicators of Brand Values[10]



Natural farming methods, vertical farming and cellular agriculture are of growing interest to consumers. Awareness of regenerative agriculture is up 10 points from 2019, with 43% of responders being very or somewhat interested. Though they are less aware of the detailed practices involved, consumers are looking for methods that go beyond organic in terms of the bigger picture for climate change and improving soil.

Nearly four out of five consumers are willing to trust companies' claims about sustainability efforts, though younger generations express more cynicism.

Figure 38. Trust in Company Sustainability Claims[12]

With today's consumer, inaction can speak as loudly as action. Getting sustainability right is as essential to future relevance and consumer loyalty as innovation.[12]

Shift from Brands to Attributes

Brands have traditionally been a powerful system of influence in consumer food culture. When information was scarce, consumer choices were often guided by brand dependency. Up through the 1970s, brand name consumer packaged goods were seen as the ultimate sign of quality. As food culture and access to information changed, so did the role of brands in consumer purchasing. In the 1980s and 1990s, consumers became focused on individuality, diet and lifestyle; brands were used to signify identity. Today shoppers place more focus on attributes and practices than branding. Consumers question claims about products and can engage in two-way communication with brands to obtain firsthand knowledge of the products they choose.[10]

According to Hartman Group research, consumers consider ingredients first, and then how much product detail is readily available. Even new/unknown brands and private label brands can be seen as high-quality choices if they deliver the ingredients and values that consumers are seeking.

Figure 39. What Communicates the Essence of a Brand[10]

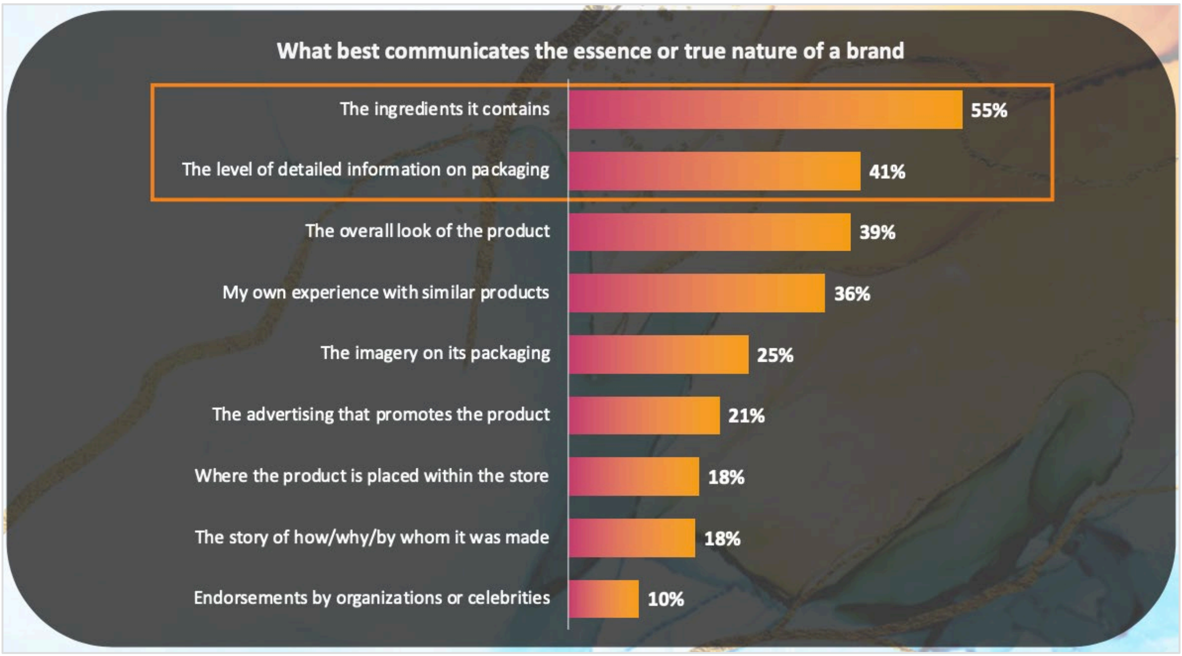
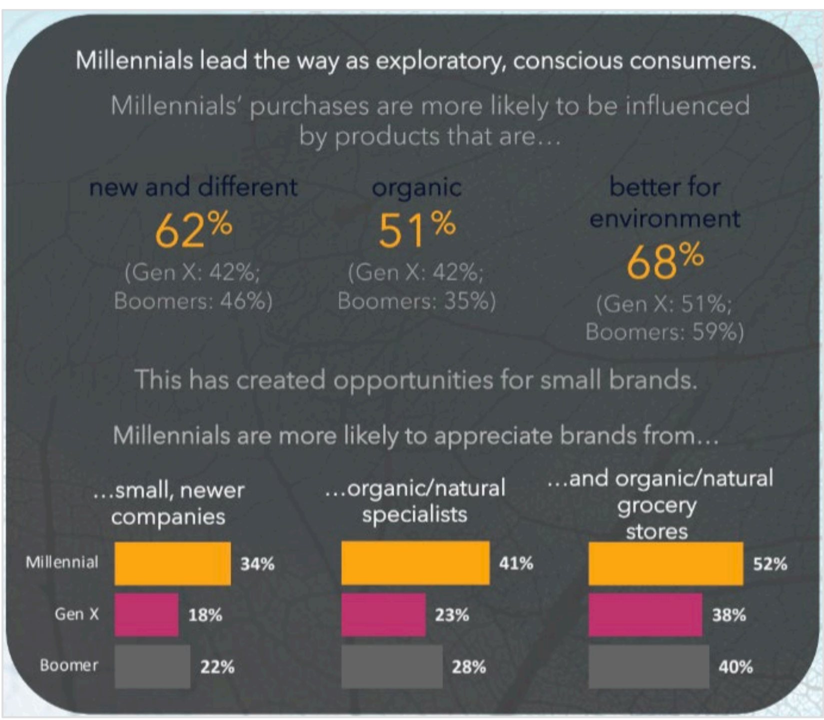


Figure 40. Millennials Lead the Way as Conscious Consumers[10]



As seen in Figure 40, Millennials are specifically seeking new and different brands that fit their values. Co-ops can support this by introducing new brands and private label products (Field Day) along with their values-based qualities. Co-ops can:

- Provide accessible information related to ingredient transparency and product benefits.
- Offer narratives of production in alignment with consumer values.
- Support the communities and people who are associated with product sourcing or production.
- Utilize packaging that supports environmental health and mitigates consumer concerns.
- Evolve quickly as consumer preferences and desires around attributes advance and become more nuanced and sophisticated.[10]

Product Category Trends

Alcohol Pre- and Post-COVID-19

Prior to the COVID-19 pandemic, the biggest trend in the beverage landscape was a growing interest in low- and no-alcohol beverages, driven by consumer health-centered concerns. The pandemic led to a surge in alcohol consumption, likely in response to consumer cited needs for relaxation and stress alleviation. Most recently, consumers are once again reassessing their relationship to alcoholic beverages amid a growing understanding of health and wellness.

Since 2020, there has been a cultural shift to give more consideration to physical, emotional, mental — and even societal — health. Alcohol is now recognized for its adverse impact on health (weight, energy, focus, inflammation and cognitive health), emotional well-being (being used as a coping mechanism), and the body's restorative processes (sleep detoxification, immunity, etc.).

With many consumers expressing concern about the amount of alcohol they consumed during the pandemic, some are looking for ways to limit or avoid alcohol for health reasons.[14]

New Beverage Options

Generational and technological changes brought on by the use of smartphones and internet connections have impacted how Americans socialize, reducing the pressure to consume alcohol for some while allowing others to find one another via social contexts not implicit with the pressure to consume alcohol. The classic American bar has even been reimagined to welcome children and pets and offer more non-alcoholic options for customers choosing to abstain.

Amid this social reimagining, growing numbers of occasion-specific yet non-alcoholic beverage options have emerged. Personalized beverage options have moved in three directions:

- Non-alcoholic versions of traditional alcoholic drinks have greatly improved in taste
- The culinary attributes of the cocktail culture have expanded into zero-alcohol options
- Alcohol has been added to traditionally non-alcoholic beverages

Each of the above fulfills customer needs for discovery and self-care — both important to contemporary wellness culture.

Alcohol-free offerings have joined their traditional counterparts in the categories of beer and wine, bringing in additional consumers who prioritize taste. New breweries are introducing a variety of craft beers in non-alcoholic formats. Even common liquors such as whiskey, gin and vodka now have "virgin" alternatives. Additionally, new mixers and spritzers are loaded with trend-forward ingredients — adaptogenic mushrooms, nootropics and botanicals — which purport some of the same benefits to mood, without alcohol. Elixirs and CBD beverages round out the offerings.

Packaged functional beverages are a high-growth category, compelling to younger generations of consumers and the growing market for non-alcoholic options.

Among alcoholic beverages, the expansion of the hard seltzers category is notable as brands experiment with beverages that are lower in both alcohol and calorie content, gluten-free, and provide functional properties that help consumers justify their consumption. Hard kombucha drinks and hard coffees are also growing in interest.

Alcohol brands that expand their offerings in these ways can appeal to a new demographic interested in a more mindful or functional approach to alcohol consumption, particularly women. In short, companies have the opportunity to meet the growing needs of consumers through functional and inventive flavors, with or without alcohol.[14]

Cannabis Products

As cannabis gains popularity and mainstream acceptance as a health-support modality, it is being seen by a growing number of consumers as a healthier alternative to alcohol consumption. Among U.S. adults, 91% say cannabis should be legal for medicinal use; 60% say it should be legal recreationally.[15]

New CBD and THC products feature ingredients that purport positive social benefits without the negative health outcomes related to alcohol consumption. In fact, 43% of cannabis users living in states with legal recreational use say that they use cannabis products as a replacement for alcohol.[14]

Despite growing interest among consumers, some cannabis brands have seen sales decline or flatten, due consumers favoring lower-priced CBD products. Sales data from Charlotte's Web and Garden of Life brands indicate that sales of lower-priced CBD gummies and topicals are up 22-200% while tinctures and pills have declined.[16]

Plant-based Foods

Plant-based items continue to grow in popularity as their audience expands. Plant-based options are now available for almost any grocery item, and even non-plant-based shoppers are giving them a try. Shoppers spent $6 billion on plant-based products over the last year yet only 6% of those items are sold within the natural grocery channel.[17] Sales of plant-based products that deliver similar nutritional benefits as meat (low carbohydrate, high protein) are outpacing those of less nutrient-dense options.

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