The Continued Evolution of Deli Prepared

Presented by Matt Lally

Nielsen Fresh Growth & Strategy Team

How people shop continues to evolve…

THE PAST

Grocery dominant channel

Center store growing and innovating

Fresh driven by **commodity**

THE PRESENT

Channel competition high

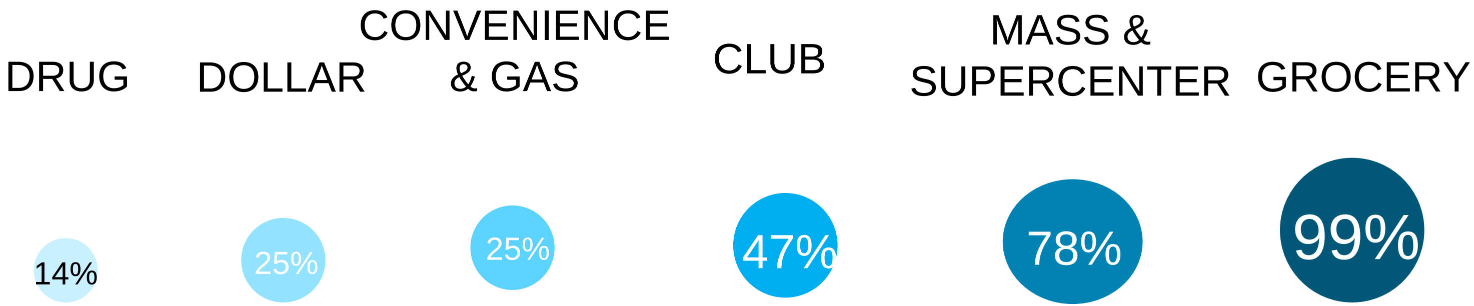
Center store grow **slowing**

Fresh changing and **innovating**

Source: Nielsen Homescan Panel, 52 Weeks 12.31.16

Channel lines blurring for fresh purchases

SHARE OF SHOPPERS **PURCHASING FRESH** BY CHANNEL



...AS MORE OPTIONS BECOME AVAILABLE

Source: Nielsen Homescan Panel, 52 Weeks 12.31.16

Deli & deli prepared are growing faster than traditional departments

	Dollars	Volume
Meat	-1.2%	+1.6%
Produce	1.7%	+1.1%
Deli	**+2.0%**	**+2.0%**
Bakery	+1.3%	+1.6%
Seafood	+1.0%	-2.2%

Deli
$25B
99.5% penetration
+3.2% Trips vs. YA

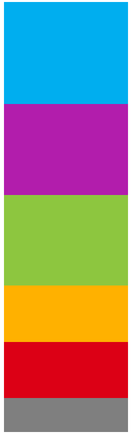
Deli Prepared
$15B (60%)
96.2% penetration
+5.1% Trips vs YA

$ +3.2%
lbs +2.7%

Source: Nielsen Freshfacts, 52 weeks ending 7/1/17, Nielsen Homescan, 52 Weeks Ending 7/1/17

The consumer is demanding changes

Out of House Dinner Decision Drivers



3.3 Mood/craving
3.2 Speed/time
3.0 Cost/value for money
2.3 Variety
2.3 Nutrition/healthy options
1.1 Ambiance

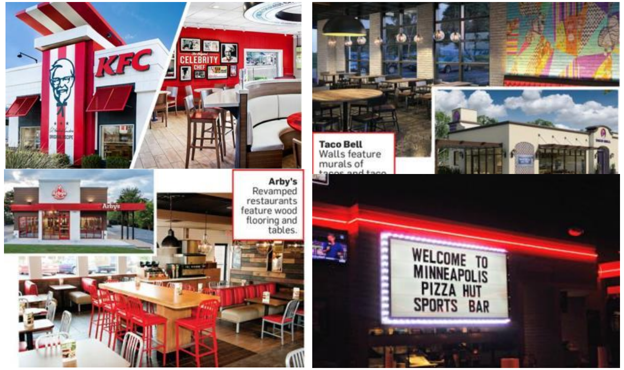
Products Closer to the Point of Consumption are Growing

Center Store	Perimeter	Grocerants	Restaurants
$325B	**$145B**	**$30B**	**$480B**
-0.1% vs. YAGO	**+1.0%** vs. YAGO	**+3.4%** CAGR	**+4%** vs. YAG
Flat/Declining	**Slowly Growing**	**Growing**	**Growing**
Time & assembly required for a meal at home	Focusing on health but **still doing the cooking**	**Delegating the cooking** but can eat in-store or at home	**Delegating the cooking** & there for the **experience**

Source: Nielsen FreshFacts, 52 weeks ending 12/31/16; Power of Fresh Prepared; FMI/210 Analytics

Restaurants and QSR's continue to innovate

1 Store Makeovers



2 New and Innovative Products

But also around Health & Wellness…

3 Expanded Offerings

POSTMATES UBER EATS bite squad amazon restaurants DOORDASH

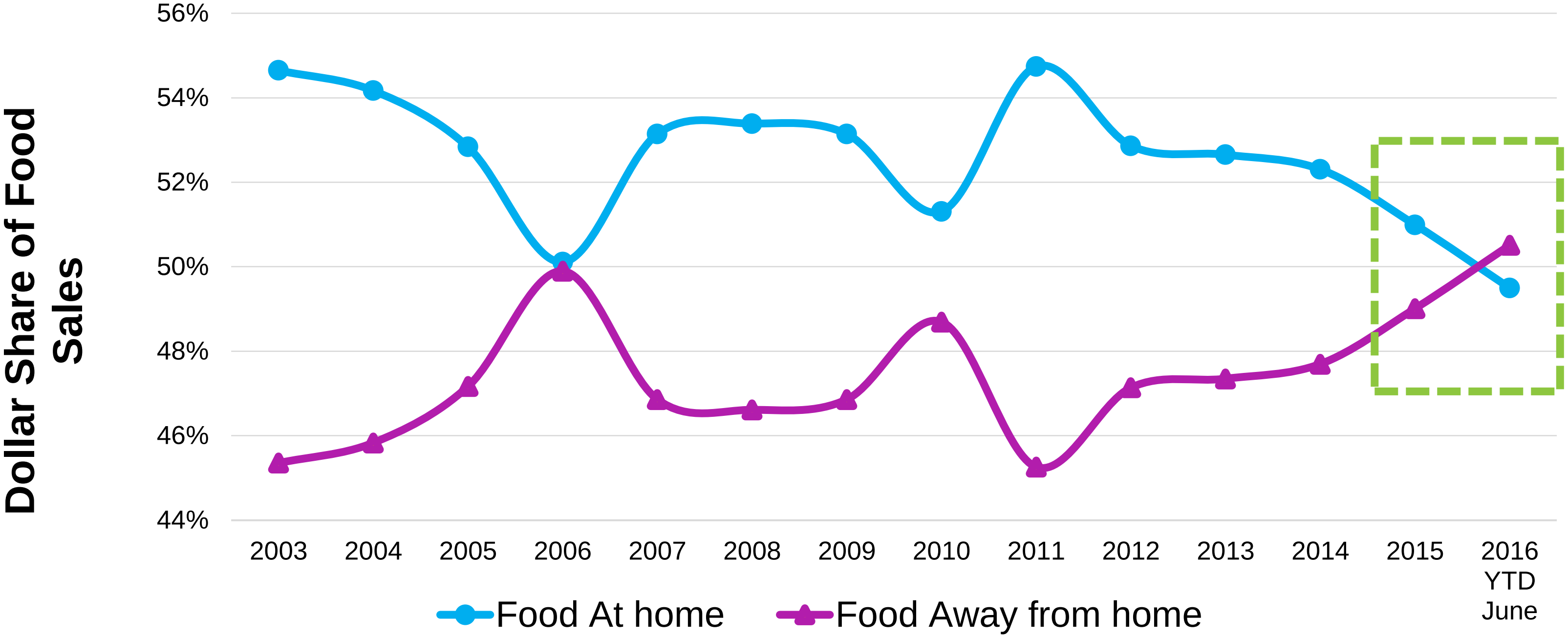
Fancy a drink?

4 Digital & Advertising

Chick-fil-A A-List MEMBER EVENT

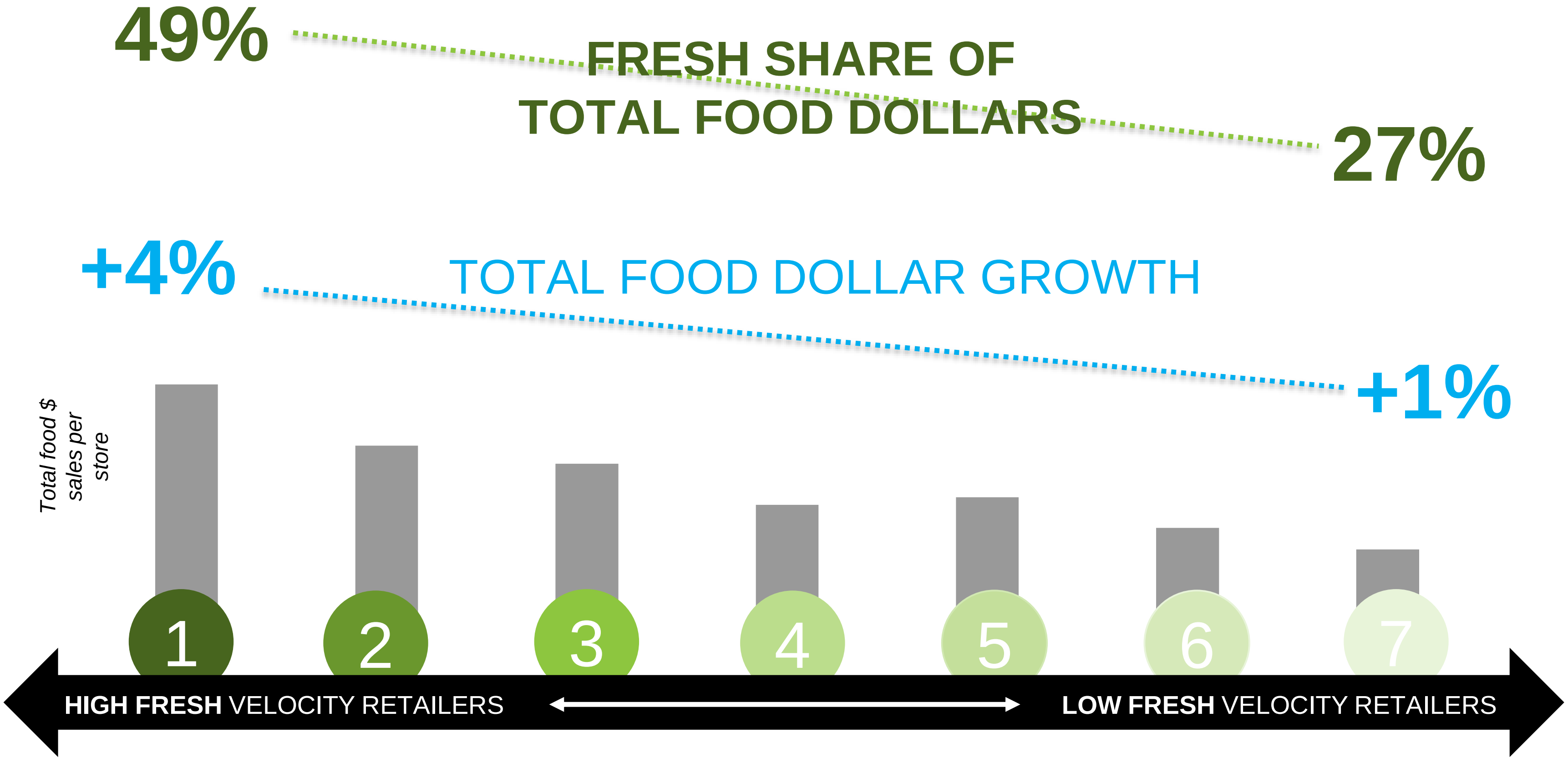
Source: Nielsen Out-of-Home Dining Trends Report, August 2016

Consumers are changing where they spend their food dollars



Notes: Based on food sales from monthly and annual data in Census Retail Trade, available at: http://www.census.gov/retail/
Food sales exclude alcoholic beverages as well as home production, donations, and supplied and donated foods; food sales data are not seasonally adjusted.
Data Sources: USDA ERS Food Expenditure Series; US EIA Monthly U.S. Regular All Formulations Retail Gas Prices – prices include all taxes

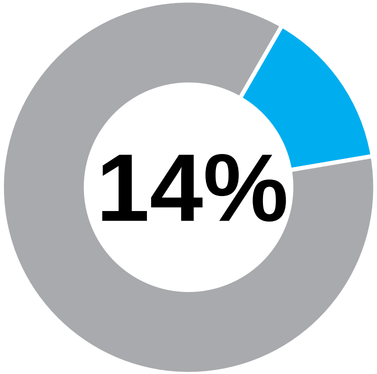
Hand-in-hand: Total store and fresh success



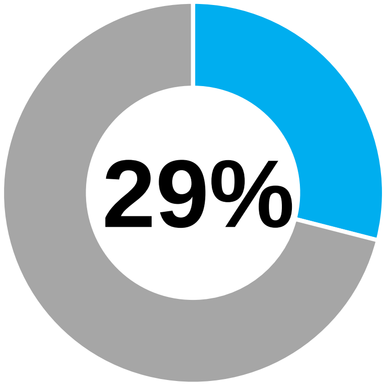
Source: Nielsen, 52 Weeks Ending 12.31.16

Deli has grown its share of fresh through diversifying

Deli Share in Low Fresh Velocity Retailers



Deli Share in High Fresh Velocity Retailers



Source: Nielsen FreshFacts, 52 weeks ending 12/31/16

Some retailers have evolved more than others, but anyone can win if strategy executed correctly

Low Fresh Velocity Retailers

Sandwiches Fried Chicken Pizza

Deli share +3 points
vs. prior year

High Fresh Velocity Retailers

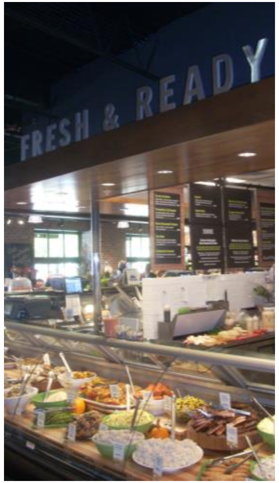
Rice Bowls Deli Sushi Salad Bars

Source: Nielsen FreshFacts, 52 weeks ending 12/31/16

How can Deli Prepared differentiate to stand out in the shopper's mind when it's time for a meal?

1. Play across the spectrum

Convenience



Health & Wellness

Multiculturals

People buy fresh prepared for the convenience

#1 advantage of fresh prepared vs. home cooking

65% Convenient

Power of Fresh Prepared; FMI/210 Analytics

Prioritize speed and think beyond ready to eat

For consumers who are just looking for a quick meal, retailers should make it easy for consumers to get **in and out quickly** – with the deli near the front of the store or adding separate checkouts.

Some consumers may be **pressed for time** but still enjoy cooking or desire more control over the ingredients that go into their meals. Retailers should look for ways to better serve these consumers.

Source: Nielsen Out-of-Home Dining Trends Report, August 2016

Leverage the strong connection between deli and bakery for dinner tonight

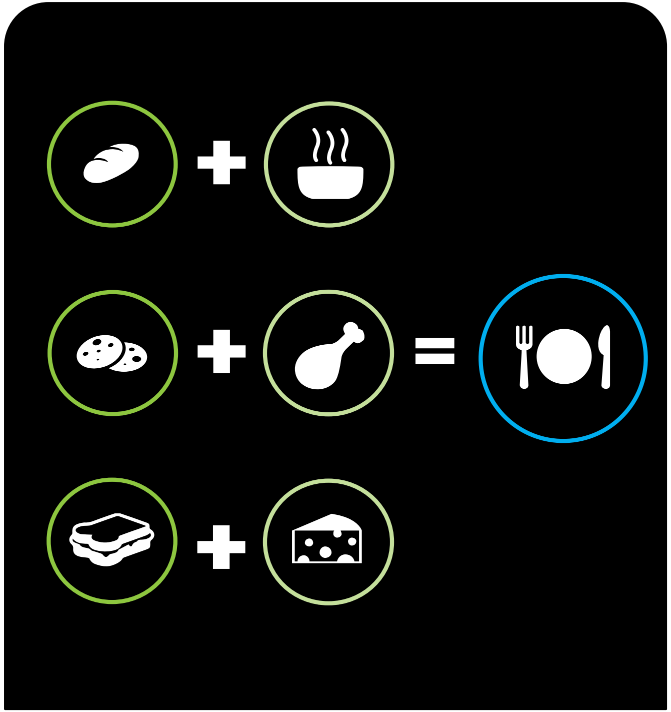
IN-STORE BAKERY AND DELI SHARE…

PROXIMITY

Utilize these departments' adjacent locations to **cross-promote** and **cross-merchandise**

CONVENIENCE

Drive **connections** between the bakery and deli **prepared foods** to meet the growing consumer need for convenience



Activate cross-department **connections** for these **occasions**:

DINNER TO-GO

DINE-IN

PARTY TIME

Source: Nielsen Total Store Connectivity Study, 2016

Emphasize Health & Wellness

Consumers also **want fresher, more healthful** items. Retailers should consider expanding their array of better-for-you options, including those with special dietary needs.

Source: Nielsen Out-of-Home Dining Trends Report, August 2016

People don’t view fresh prepared as the healthiest option

#1 disadvantage of fresh prepared vs. home cooking

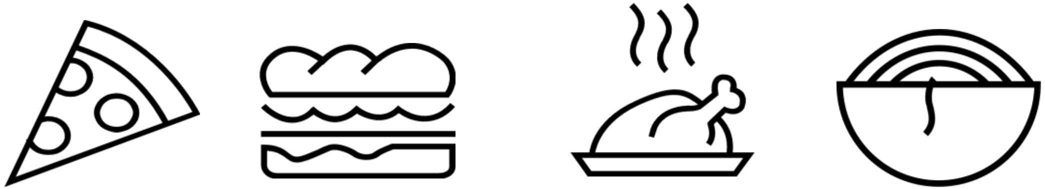
25% Healthy/nutritious

Power of Fresh Prepared; FMI/210 Analytics

How, not if, will menu labeling impact sales?

Deli Prepared Dollar Growth

Q2 2016 – Q1 2017	Q2 2017
4%	2%

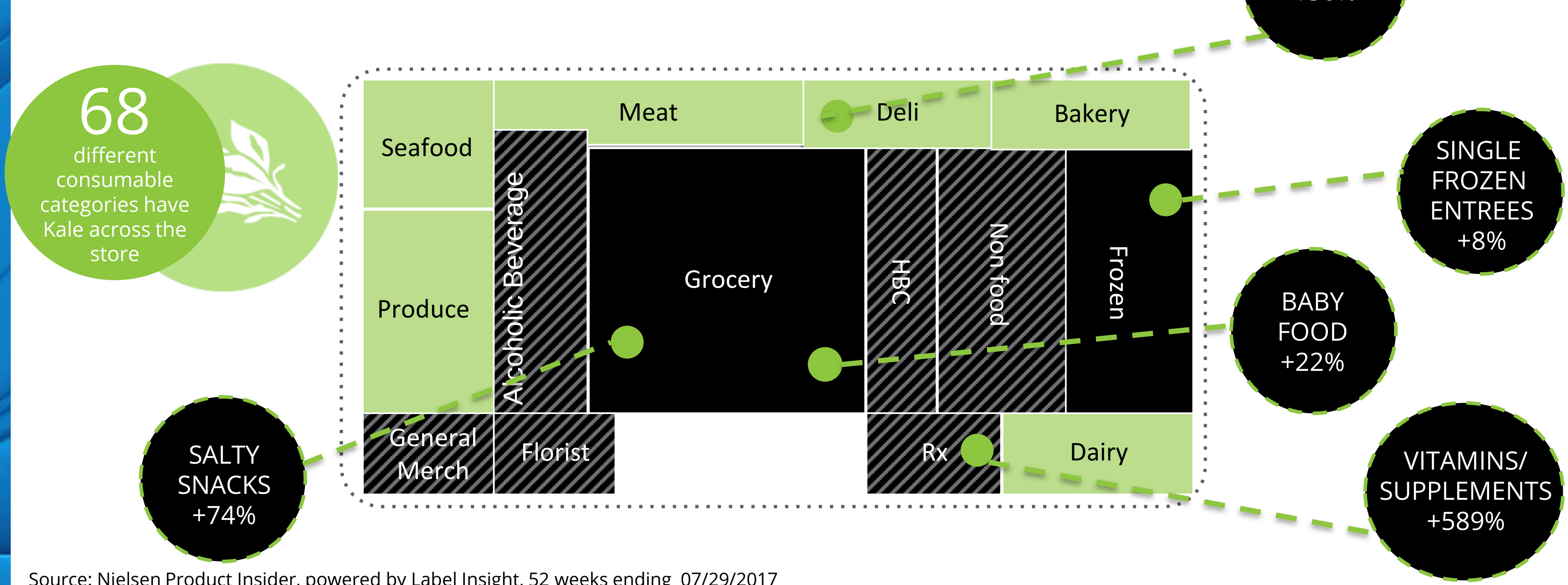


Pizza | Sandwiches | Rotisserie Chicken | Salads

Source: Nielsen FreshFacts

The healthy “Halo” of Kale can be seen across the store

ACROSS THE STORE PRODUCTS WITH KALE GREW DOLLARS BY 22% FROM YAGO



Source: Nielsen Product Insider, powered by Label Insight, 52 weeks ending 07/29/2017
Source (Kale Icon): http://www.ripenear.me/produce/axe-handles-farm/kale

Provide transparency and simplicity

67% I want to **know everything** that is going into my food

71% I'm concerned about the long term health impact of **artificial ingredients**

61% The **shorter the ingredient list**, the more healthful the food or beverage

68%

Willing to pay more for foods and drinks that do not contain **undesirable ingredients**

% who ranked **important in influencing purchase**

62%	Made from fruits/ vegetables
61%	High in protein
57%	High in fiber
57%	Portion control
57%	Whole grain

Menu labeling is just one more reason you should already have healthy options – as consumers will abandon if options aren't available

Source: The Nielsen Global Health and Ingredient-Sentiment Survey, Q1 2016, Percent of North American Respondent Who Strongly Or Somewhat Agree

Cater to the diverse population

In 5 Years, The U.S population will grow by:

Hispanic **6.8M**

Asian American **2.3M**

African American **1.8M**

Non-Hispanic White **1.0M**

(in Millions)

Almost **1** in **3** Americans consume foods that contain multicultural flavors at least once a week

32% of all Americans would pay more for a brand that understands Multicultural needs

Source: Nielsen State of the Hispanic Consumer Report: The Hispanic Market Imperative, American Communities Survey (2014), U.S. Census Bureau * Excludes American Indian, Alaska Native, Hawaiian & Other Pacific Islanders

Multicultural influence evident across the store

Guacamole	+23%	DOLLARS VS YAGO
Deli Sushi	+20%	DOLLARS VS YAGO
Chorizo	+7%	DOLLARS VS YAGO

+16%

Total Store Dollar Growth of Multi-cultural Flavored Products

Source: Nielsen Freshfacts 52 Weeks Ending 7/1/2017; Nielsen xAOC 52 Weeks Ending 7/1/17 (upc only)

2. Sustain growth through constant innovation

	Dollar Change	Volume Change	Impressions Change	
Deli	4.1%	2.8%	3.7%	5 Year CAGR
Deli Prepared	5.0%	3.8%	4.2%	5 Year CAGR

Source: Nielsen Freshfacts, Stable Stores Calendar years 2012-2016

Get the right product mix

AND?
OR?

Not all retailers can or should provide such a broad array. For some, it may be sufficient to offer consumers an **easier, more upscale alternative** to what they can make at home.

Source: Nielsen Out-of-Home Dining Trends Report, August 2016

Demographic preferences evident, critical you cater to the core shopper

3. Focus on meal solutions to create a destination

Meal Kit industry tops

$1.5B

1 IN 4 U.S. ADULTS HAVE PURCHASED A MEAL KIT IN THE PAST 12 MONTHS

TOP REASONS FOR PURCHASING A MEAL KIT:

Source: Harris Poll® conducted online, in English, within the United States; adults who have purchased a meal kit in the past 12 months
Source (Size of Meal Kit Industry): Packaged Facts (https://www.packagedfacts.com/about/release.asp?id=3892)

Health perceptions a key difference in meal kits from grocery competition

81%

meal kit purchasers believe meal kit dinners are **healthier** than prepared foods from the local grocery store

41% of consumers would prefer to purchase a meal kit **in-store** vs 26% for delivery and 10% from a restaurant

IN STORE MEAL KIT* SALES:

$80.6 million

+6.7% compared to YAGO

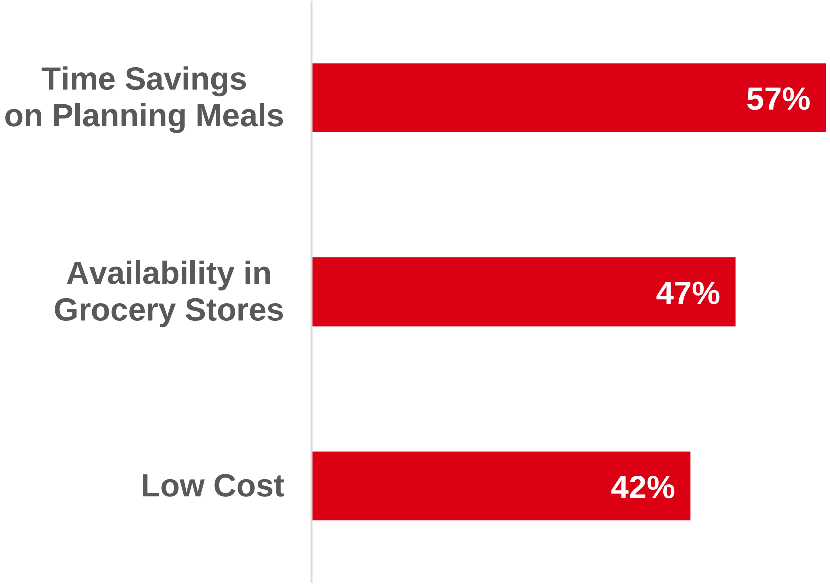
Source: Harris Poll® conducted online, in English, within the United States; adults who have purchased a meal kit in the past 12 months; Nielsen Freshfacts 52 Weeks Ending 12/31/2016

Retailers can reach key consumers and meet their needs with in-store meal kits

Meal Kit Shoppers

- Millennials
- Male
- Children in the Home
- Income $70,000+

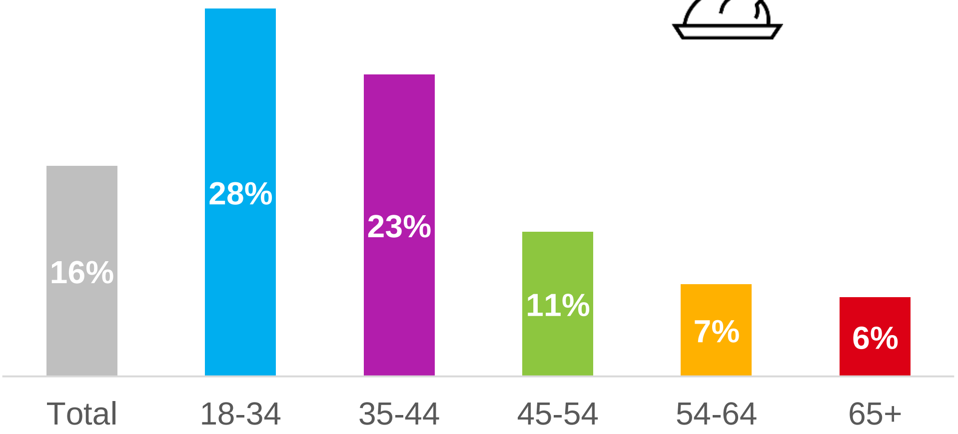
Factors important to **in-store meal kit** purchasers



Source: Harris Poll® conducted online, in English, within the United States

Meal kits expand beyond typical dinner occasions

28% OF MILLENNIALS WOULD PREFER TO MAKE THANKSGIVING DINNER FROM A **MEAL KIT**



UNIQUE OPPORTUNIES TO DRIVE NEW OCCASIONS TO MEAL KITS

- Holiday Kits
- Breakfast Kits
- Brunch Kits
- Party/Entertaining Kits
- Kid's Birthday Party Kit
- Wine & Dine Kits

Source: Harris Poll® conducted online, in English, within the United States between November 2 and November 4, 2016 among 2,037 adults aged 18+

Meal kits provide a convenient, curated experience

Keep shoppers coming to your store

Take away from restaurant visits

Provide a fast and convenient option

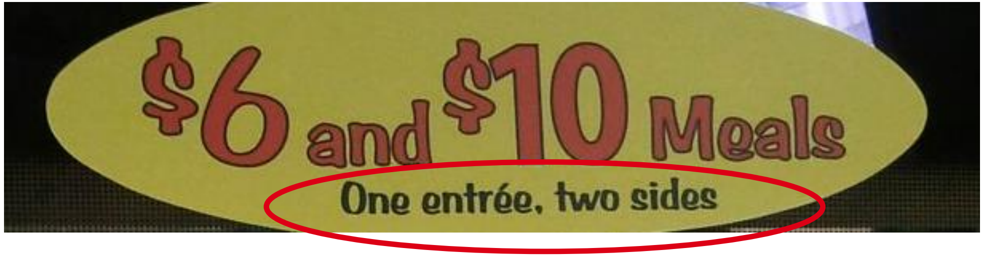
Continue to boost deli prepared sales

Encourages shoppers to experiment with new ingredients

Bring the entire meal together for the shopper

86%

OF MEAL KIT SHOPPERS WOULD ADD A ***DESSERT*** IF THAT WAS AN OPTION



+ DESSERT

Source: Harris Poll® conducted online, in English, within the United States

This concept could apply to any deli station

Source: Store photo

In order to stand out to consumers who are eating outside the home more and more…

1. **Play across the spectrum**
2. **Sustain growth through constant innovation**
3. **Focus on meal solutions, create a destination**