

Chapter 2. The Marketing System

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Special Topic – The New Economy’s Effect

Everyone is calling it the New Economy. For consumers, this new economy has triggered changes in shopping patterns, diverting spending from restaurants to supermarkets, from supermarkets to discount food retailers, from brands to private label, and from fresh to frozen.

Sales in almost all retail outlets were down in 2009, even in supercenters, the format dominated by Walmart (Table 2 – 1). Declines in food sales can be attributed to changes in the economy (prices) and to changes in shopping behavior. Sales have fallen due to a drop in commodity prices reflected in the Producer Price Index (please see Figure 2 – 1 on page 4) which stabilized many food prices combined with consumers clamping down on food expenses. One way consumers have tightened their belts has been to buy more private label. Private label, or store brands, are 30% cheaper, on average, than national brands enabling consumers to lower their food bill. In addition, consumers are trading down to cheaper substitutes, using lists to limit impulse purchases, and purchasing increasingly using sales, promotions, and coupons.

TABLE 2 – 1. ANNUAL RETAIL AND FOOD SERVICE SALES,
PERCENT CHANGE FROM YEAR AGO

Kind of Business	% change from year ago		
	2007	2008	2009est.
Retail and food services sales, total	3.4	-0.4	-8.2
Automobile dealers	0.8	-14.9	-13.2
Building mat. and supplies dealers	-4.0	-6.5	-11.7
Supermarkets and other grocery (except convenience) stores	4.7	5.1	-1.1
Beer, wine, and liquor stores	5.9	6.3	-3.3
Pharmacies and drug stores	4.9	3.1	2.0
Gasoline stations	5.9	9.6	-26.3
Clothing stores	4.8	-2.2	-10.1
Hobby, toy, and game stores	3.5	6.7	-12.0
Department stores(excl. discount department stores)	-3.0	-7.0	-22.3
Warehouse clubs and superstores	9.1	8.5	-1.6
Used merchandise stores	7.4	5.3	-1.5
Electronic shopping and mail-order houses	8.7	2.5	-3.4
Food services and drinking places	4.8	3.5	1.1

Source: US Department of Commerce, Census Bureau. *Monthly Retail Trade and Food Service Survey*, September 2009. <http://www.census.gov/mrts/www/mrts.html>

Fresh food departments, in particular, have been vulnerable to the recession. Heavily impacted by last year’s increase in commodity prices, fresh foods have been comparatively expensive and vulnerable to substitution. Even within these departments, shoppers have also been switching to less expensive items.

A recent article by The Perishables Group, a consulting firm, (*Grocery Headquarters, September 2009*), examined sales trends in the fresh departments¹. First, with the exception of Bakery, dollar sales in the 52 weeks ending May 23, 2009 increased only slightly over a year ago (Table 2 – 2). However, the increases may actually have been due only to increased retail prices. Unit volume in many cases actually declined.

Each department also saw shifts in consumer spending to more frugal items. In the meat department, ground beef sales were up significantly while steak and beef sales were down. In the produce department staple items such as potatoes and bananas were up while specialty vegetables were down. Bulk lettuce sales increased at the expense of packaged salads, apparently a direct trade-off in consumer spending. Berries did extremely well, although berry prices were very reasonable. Tomatoes were down significantly, but probably due to the food safety scare.

Deli, Bakery, and Seafood also exhibited changes in category sales as consumers shifted their spending. Deli Platter sales were down, perhaps because consumers chose to make up their own platters. On the other hand specialty cheeses, prepared chicken, and pizzas still did well as consumers shifted away-from-home dining to less expensive, convenient at-home meals. In Seafood, catfish was up. Lobster was up as well, but lobster prices were down significantly, so perhaps consumers allowed themselves a treat by purchasing up on lobster. Shrimp sales were down.

Table 2 – 2. TOTAL FRESH FOODS PERFORMANCE,
52 WEEKS ENDING May 23, 2009

Fresh Department	Sales % chg vs year ago	Avg retail price	Interdepartment Shifts
Meat	2.4%	1.8%	<ul style="list-style-type: none"> ↑ ground beef, chicken, turkey ↓ steaks, beef, veal ↑ potatoes, bananas, bulk lettuce, berries
Produce	1.2	5.1	<ul style="list-style-type: none"> ↓ tomatoes, packaged salads, specialty vegetables ↑ specialty cheese, prepared chicken, pizzas
Deli	2.3	4.4	<ul style="list-style-type: none"> ↓ platters ↑ bagels, desserts, breads, rolls, cakes
Bakery	4.3	8.4	<ul style="list-style-type: none"> ↓ muffins, miscellaneous (ingredients) ↑ catfish, lobster
Seafood	1.1	4.4	<ul style="list-style-type: none"> ↓ shrimp

Source: Perishable Group FreshFacts Powered by Nielsen and Lutz, Steve, "The New Frugal Consumer". *Grocery Headquarters*.

The Perishables Group has also examined department trends since May 2009 and found more evidence of this negative correlation between prices and volume. They looked at produce department data. In this most recent data, for 13 weeks this summer, produce retail prices decreased from year ago, a reflection of the drop in Producer Price Index, while volume, at least for vegetables, increased slightly

¹ Lutz, Steve, "The New Frugal Consumer". *Grocery Headquarters*. Fresh Food Handbook Supplement. September 2009.

(Table 2 – 3). Overall, however, the increase in volume was not enough to compensate for the drop in retail prices, and produce sales declined compared with summer 2008. The Perishable Group surmised that consumers were still looking for more bang for their buck and continue to migrate from fresh to frozen and canned.

Product	Dollars per store/week	Volume per store <i>% chg vs year ago</i>	Avg retail price
Produce	-1.1%	1.8%	-3.0%
Fruits	-2.8	-0.0	-3.0
Vegetables	0.3	4.0	-3.7

Source: Lutz, Steve, "New Strategies for a New Economy". Presentation October 4, 2009 for FreshSummit Convention. Produce Marketing Association.

The U.S. Food Marketing System Update

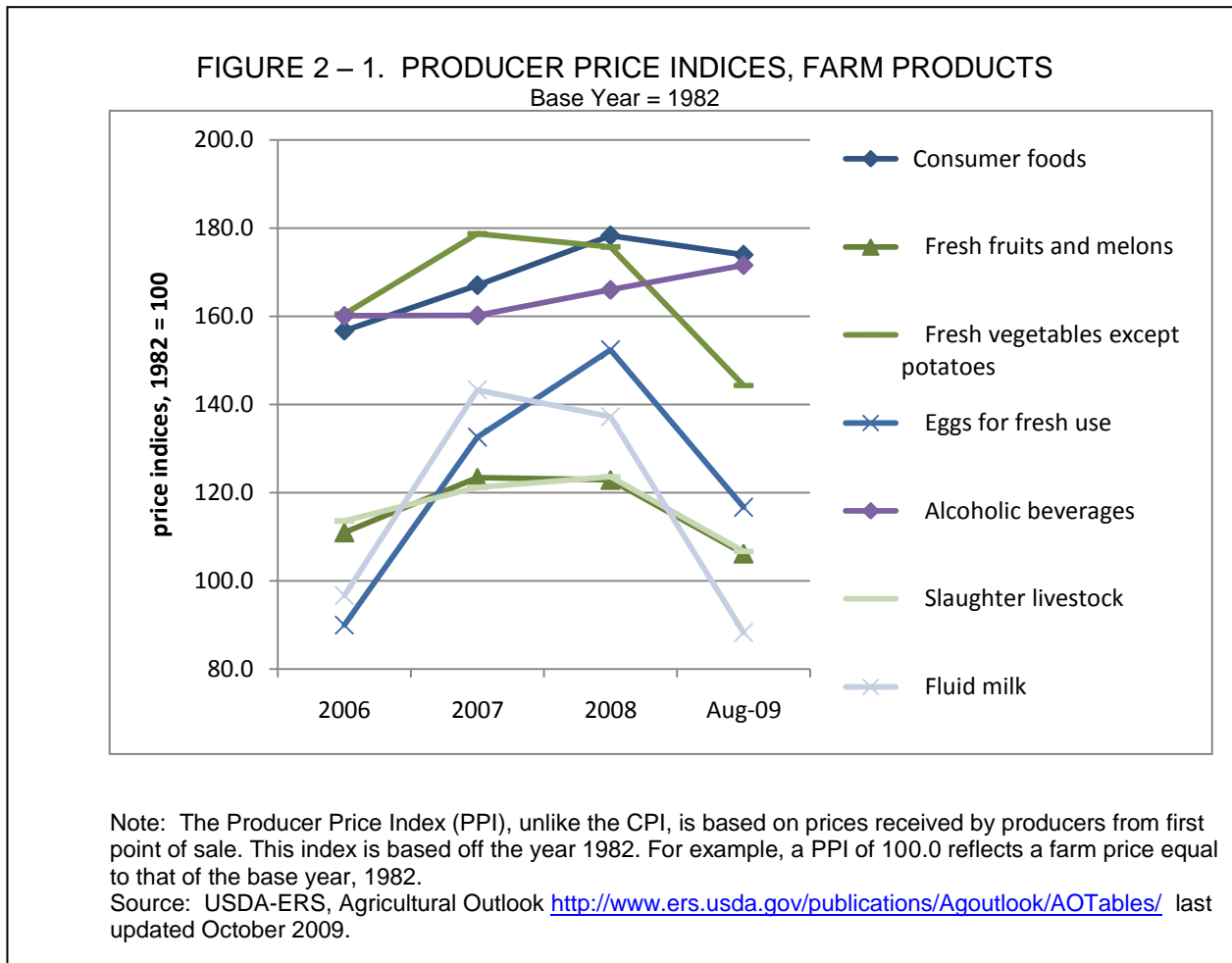
The recession hit every household income bracket in 2009. While 2008 may have seen the greatest food inflation in recent decades, 2009 saw food sales slip in several prime food store departments. Food inflation in 2009 was very modest. In late 2008, the USDA-Economic Research Service initially forecast 4 – 5% inflation for food in 2009, but actual food inflation for the year is now projected to be 2 – 3%. (Table 2 – 4). Egg prices crashed and dairy products prices spent the year in the doldrums. Even fresh fruit and vegetable prices were in survival mode.

Item	Final 2008	Forecast 2009	Forecast 2010
Consumer Price Indexes		<i>Percent change</i>	
All food	5.5	2.0 to 3.0	3.0 to 4.0
Food away from home	4.4	3.5 to 4.5	3.5 to 4.5
Food at home	6.4	1.0 to 2.0	2.5 to 3.5
Meats	3.5	-0.5 to 0.5	1.0 to 2.0
Poultry	5.0	2.0 to 3.0	1.0 to 2.0
Eggs	14.0	-16.0 to -15.0	2.0 to 3.0
Dairy products	8.0	-7.0 to -6.0	2.5 to 3.5
Fresh fruits and vegetables	5.2	-1.5 to -0.5	2.5 to 3.5
Processed fruits and vegetables	9.5	6.0 to 7.0	3.0 to 4.0
Sugar and sweets	5.5	5.0 to 6.0	3.5 to 4.5
Cereals and bakery products	10.2	3.0 to 4.0	2.5 to 3.5

Source: USDA-ERS, Food CPI, Prices, and Expenditures,
<http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/Data/cpiforecasts.htm>

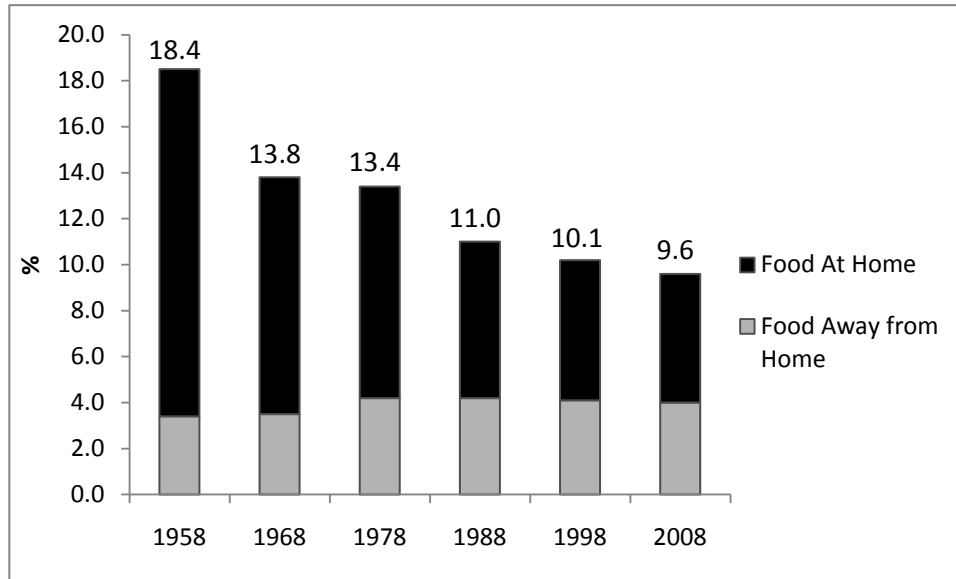
The Producer Price Index

After 2 years of general price increases due to increases in fuel prices and in corn and wheat prices, the PPI dropped sharply for many products (Figure 2 – 1). Fluid milk prices crashed to below 1982 levels. A few general categories have continued to see index gains even through the past year: Bakery Products, Frozen Vegetables, Canned Fruits & Juices, and Tobacco Products.



Despite the economy, food expenditures as a percent of disposable income remain low. Fifty years ago, families and individuals spent 18% of their disposable income on food, while in 2008, food costs only 9.6% of our disposable income (Figure 2 – 2).

FIGURE 2 – 2. FOOD EXPENDITURES AS A SHARE OF DISPOSABLE PERSONAL INCOME



Source: USDA-ERS, Food CPI, Prices and Expenditures.
<http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/Data/table7.htm>

The most recent yearly sales figures are for 2008, the year that saw skyrocketing commodity prices early in the year and the start of the worst recession since the depression of the 1930s. Food and beverage sales experienced modest growth in 2008, increasing 3.2% from 2007 (Table 2 – 5). Food away from home sales increases (3.2%) were again outpaced by food at home sales (3.3%).

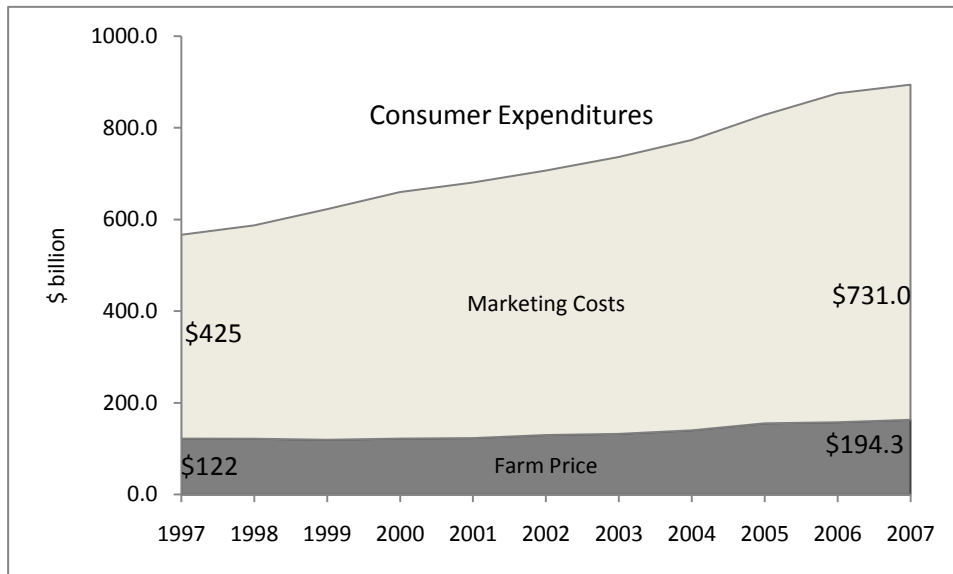
TABLE 2 – 5. FOOD SALES¹

Sector	Sales 2007	2008	Increase	Growth
		--\$ billion--		--% change--
Total food and beverage sales	\$1,239,170	\$1,279,095	\$39,925	3.2%
Total food sales (excluding alcohol)	1,076,002	1,111,131	35,129	3.3
Food at home sales	574,137	593,071	18,934	3.3
Food away from home sales	501,865	518,060	16,195	3.2
Alcoholic beverage sales	163,168	167,964	4,796	2.9

¹ Sales only. Does not include home production, donation, or school lunch program expenditures
 Source: USDA-ERS, <http://www.ers.usda.gov/briefing/CPIFoodAndExpenditures/Data/table1.htm>.

The USDA calculates farm price or value and marketing costs for food produced and consumed in the United States. In 2007, the latest data, consumer expenditures for food produced in the U.S. totaled \$925.3 billion (Figure 2 – 3). The farm value portion was \$194.3 billion or 21% of expenditures. The remainder of food expenditures, \$731.0 billion, are associated with marketing costs, including labor, packaging, transportation, energy, profits, advertising, depreciation, rent, interest, repairs, business taxes, and other costs.

FIGURE 2 – 3. U.S. FARM VALUE AND MARKETING BILL, 1997 - 2007¹



¹ Marketing bill and farm value components of consumer expenditures for domestically produced farm foods
 Source: USDA-ERS Food Marketing and Price Spreads,
<http://www.ers.usda.gov/Data/FarmToConsumer/marketingbill.htm> (updated November 2009).