



Warming Up to Innovation

Better-for-you, single-serve and ethnic flavors are among the market drivers for frozen and refrigerated foods.

By **Anna Wolfe**

Product innovation and convenience are spurring growth within segments of the frozen food industry. Last year, frozen and refrigerated food sales topped \$100 billion at retail, according to Schaumburg, Ill.-based market research firm Nielsen. However, rising prices contributed to dollar sales growth, while unit sales were off. Julie Henderson, VP communications for the

Harrisburg, Pa.-based National Frozen & Refrigerated Foods Association (NFRA), describes last year's frozen food sales as "flat," adding, "We've seen that trend continue in many of the categories during the first half of 2012."

However, there are bright spots. Driven by products that meet consumer demand, select segments of the frozen food industry are posting impressive growth.



8.2
percent

Pot pie sales
grew in 2011.

Source: Mintel

Small Eats, Big Sales

Despite the lackluster economy and increasing food prices, the \$1.6 billion frozen snack market grew by 21.6 percent between 2006 and 2011, according to Mintel's *Frozen Snacks - US - May 2012* report. Part of this increase can be attributed to cash-strapped consumers switching from restaurant meals to more entertaining and eating at home.

Aggressive innovation by smaller companies has helped them grab 24.9 percent of this segment's market share, Chicago-based Mintel says. These savvy companies — and the retailers that sell their products — are heeding consumers' demands for healthier alternatives.

Across all demographics, snacking has universal appeal. In 2012, snacking accounts for 53 percent of all eating occasions, says Laurie Demeritt, president and COO of The Hartman Group. Adults snack as much as children do, while women snack slightly more than men. And as for millennials and baby

boomers, more than half of their eating occasions are snacks — 55 percent and 52 percent, respectively, according to research conducted by the Bellevue, Wash.-based research firm.

Whether the snacks are fresh or frozen, it's important to understand “what consumers are eating and where they're eating it,” Demeritt explains, adding that foodservice establishments, such as Starbucks with its midmorning snacks, Qdoba with its afternoon tacos and Taco Bell with its late-night menu, are going after the snacking market with affordable mini-meal options.

Frozen snacks are well poised to compete. Fresh-frozen technologies blend the best of both the fresh and convenient worlds, explains Thom Blischok, chief retail strategist and a senior executive advisor with Booz & Co.'s retail practice in San Francisco. Now and in the future, “frozen snacking will be powerful,” he says. “We're going to continue to see an evolution of unique items such as frozen mini hamburgers, or sliders, that have just-off-the-grill taste. There's going to continue to be much more of that kind of innovation.”

Hand-y Options

Another rising star is frozen handheld food. The \$2.7 billion market for this segment has posted double-digit growth since 2006. Total sales (including price increases and food inflation in 2008) grew 18 percent, according to Mintel's *Frozen Handheld Food - US - June 2012* report. Within the next four years, Mintel forecasts this market to surpass \$3.8 billion in total retail.

Tapping into consumer demand for convenience and value, frozen breakfast handheld food sales have skyrocketed by 40 percent in the past two years and are forecasted to grow by 10 percent annually through 2016, reports Mintel.

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Frozen Food Dollar Sales

Dept / Category	DOLLAR SALES			DOLLAR PERCENT CHANGE VS. A YEAR AGO	
	52 Weeks Ending 07/10/10	52 Weeks Ending 07/09/11	52 Weeks Ending 07/07/12	52 Weeks Ending 07/09/11	52 Weeks Ending 07/07/12
Frozen Foods Department	44,974,969,742	46,004,250,753	47,213,538,764	2.3%	2.6%
Total Baked Goods-Frozen	2,040,223,648	2,035,773,333	2,097,016,348	-0.2	3.0
Total Breakfast Foods-Frozen	2,249,219,033	2,456,552,954	2,635,741,719	9.2	7.3
Total Dessert/Fruit/Toppings-Frozen	1,533,800,023	1,557,814,556	1,698,134,322	1.6	9.0
Total Frozen Novelties	3,327,728,827	3,460,839,643	3,613,237,867	4.0	4.4
Total Ice	674,818,757	702,817,726	735,724,026	4.1	4.7
Total Ice Cream	4,805,835,548	4,861,699,081	5,115,990,281	1.2	5.2
Total Juices/Drinks-Frozen	494,672,539	473,919,092	457,713,639	-4.2	-3.4
Total Meal Starters-Frozen	40,543,869	38,452,152	42,189,290	-5.2	9.7
Total Pizza/Snacks-Frozen	6,019,487,432	5,931,532,272	5,927,828,640	-1.5	-0.1
Total Prepared Foods Frozen	13,336,371,540	13,760,929,379	13,977,239,242	3.2	1.6

Source: The Nielsen Co.



FRESH IDEAS
Target's more widely available P-Fresh format offers 10,000 square feet of fresh, frozen and shelf-stable foods.

New product introductions in frozen breakfast handheld foods have helped create excitement in the segment. Breakfast sandwiches made with whole grain muffins, egg whites and turkey sausage meet the growing consumer demand for better-for-you products.

Pot Pies

With their comfort-food-meets-convenience appeal, pot pies are the fastest-growing segment of the \$7.9 billion frozen meal category. Pot pie sales grew by 8.2 percent in 2011 to an estimated \$431 million, Mintel reports. While only a small segment of the category, pot pies will continue to grow through next year.

However, single-serve frozen meals, which account for two-thirds of frozen meal category sales, increased sales by 0.9 percent to \$5.3 billion last year. Mintel predicts that 2012's sales will be off by 2.9 percent, while sales of multiserve frozen meals will dip 1.1 percent this year. The market research firm expects both to post annual growth during 2013-16.

Changing Faces

Overall, the future looks bright for frozen food. "There are several areas of opportunity for frozen, such as investing in more innovation throughout the department in areas such as health and wellness, meeting the needs of varying demographics, and tapping into the Hispanic and millennial markets," says NFRA's Henderson.

Part of that recipe for success is to understand changing demographics and meeting their needs.

The number of Americans age 18-34 will grow by 2.7 percent from 2011-16, but the number of those age 55 and up will grow by 14 percent. The Hispanic population, which is one of the highest consumers of frozen foods, is projected to grow by nearly 16 per-

cent between 2011 and 2016, and the Asian population by 14.4 percent, according to the U.S. Census.

Today's grocery consumers may be misunderstood or overlooked. "Twenty-eight percent of all households are single, while only 30 percent of households have children," The Hartman Group's Demeritt says. "Mom may be drawing the most volume in marketing dollars, but up to 50 percent of men do all the grocery shopping in their households." Another phenomenon to be aware of: The number of multi-generational households is also increasing.

These different groups have varying fresh and frozen food needs. "Millennials are choosing more fresh products over frozen, and Hispanics cook more from scratch, requiring companies to communicate differently with them," says Henderson.

Channels

How consumers are shopping has changed, and that, too, has affected their purchases of fresh and frozen foods.

"Since 2005, there's been 130 million square feet of grocery category space developed outside of grocery, in the form of supercenters and value chains," says Booz & Co.'s Blischok.

Currently, the grocery channel has 60.9 percent of frozen meal sales, according to Mintel. Now more than ever, supermarkets are competing head-to-head with more retail formats.

Discount retailer Target is expanding the food selection at 1,100 of its 1,772 stores. By October, the Minneapolis-based discounter will have added its P-Fresh format, which includes 10,000 square feet of fresh, frozen and shelf-stable foods, to an additional 30 stores.

Dollar stores, which have opened more than 3,800 stores since 2005, are also vying for shoppers'

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Source: The Hartman Group



fresh and frozen food dollars. Goodlettsville, Tenn.-based Dollar General has updated its format to include up to 50 feet of frozen and refrigerated space, and offers up to 20 SKUs of produce. Half of Dollar Tree's 4,100 stores offer fresh and frozen foods.

Drug stores and convenience stores are also enhancing their selections of fresh and frozen foods. At drug stores, the top 10 fastest-growing categories are all edibles, and six are frozen or refrigerated, while at c-stores, UPC-coded fresh produce tops the list, according to Nielsen.

These efforts increased these channels' sales of frozen foods by 17.5 percent from 2009-2011. Despite this double-digit growth, Mintel estimates last year's drug store sales at \$45 million, or less than 1 percent market share.

With so many options, where consumers are spending their grocery dollars has changed.

According to The Hartman Group report *Shopping Topography*, club stores are the top channel for stock-up trips among 50 percent of the consumers surveyed, followed by traditional grocery stores, at 47 percent.

But they don't have the market covered. The drug and dollar channels, which have 29 percent and 23 percent market share, respectively, are luring customers away from club and grocery stores for stock-up and fill-in shopping trips.

For immediate consumption, the drug channel is the top choice, according to the research firm's report, with 24 percent, followed by dollar stores, at 21 percent.

"Consumers claim that they still go on regular stock-up trips to grocery, club and mass discount stores," says Demeritt. "But during the week, stock-up trips need to be supplemented with fill-in trips to a variety of different channels, depending on a variety of factors such as needs, occasions, forgetfulness, or immediate consumption like hunger and thirst. Consequently, consumers shop several stores in one day."

Shopping Behaviors

Continues Demeritt: "How we define stock-up trip has changed," with 50 percent of shoppers going to two or more locations for their weekly trip. "Fresh plays a role more than ever," she adds.

To consumers, fresh departments are the places to get healthy foods, explains Demeritt. Among fresh sections, produce sets the tone for the rest of the store. "Produce is a cue to consumers," she says. "If a store does produce well, they'll get a pass on the other areas of the store. It has a halo effect. The perception is that the rest of the store is high-quality as well."

This is an opportunity for grocers to gain customers. In general, "club and mass stores don't do fresh well," Demeritt notes. "Mainstream grocers can help up the ante. Fresh is the cue to health and wellness, and to other areas of store."

Consumers' broad definition of fresh food includes everything from prepackaged hummus and guacamole, cheese that's cut and wrapped in the store, complete meal solutions, and prepared salads, to "everything you scoop into a tub," Demeritt explains. These foods appeal to consumers because they're fresh and convenient. Plus, they appeal to last-minute shoppers "who are willing to pay a premium for fresher foods," she adds.

On a Mission

When consumers are shopping the fresh areas of the store, they're "looking for inspiration," says Demeritt. Often, they're looking for dinner ideas. "They want to be inspired and have fun. They're more willing to do something different. The nature of the trip is, 'What do I do?'"

In The Hartman Group's research, Demeritt sees a trend where consumers are deeming fresh foods as healthier than the alternatives — sometimes erroneously so. "They're eschewing reading the ingredients list or the nutrition facts panel. Fresh is a cue for healthy, in consumers' perceptions," Demeritt explains. "It's not the calories. In fact, it might be high in fat and calories." These consumers want to be able to pronounce the ingredients, as in the case of the Häagen-Dazs Five line of ice cream made with five easy-to-pronounce ingredients. "It has a much broader implication than ingredients and nutrition," she adds.

Foods with a short list of real ingredients are in vogue, agrees Cara Kelly, director of strategy, insights and planning for the Innovation Center for U.S. Dairy. Kelly and Melinda Brunell, VP of health and wellness at the Rosemont, Ill.-based center, spent a year scanning research, including the Natural Marketing Institute's health-and-wellness trends database, conducting focus groups, data mining and more to learn more about consumers' purchase habits.

Among their findings: Minimally processed foods and products with a short list of real ingredients are in, and real, fresh and natural foods have broad appeal and are sought after by 40 percent of consumers.

A Value Proposition

The NFRA has developed a Manufacturer Advisory Committee to evaluate the state of the industry and identify opportunities for growth. "One of its main tasks is developing common messaging that can be used across all brands and categories," Henderson explains. "The industry needs to redefine 'value' for the customer."

Delivering on value is one of the top trends affecting grocery and consumer packaged goods today, explains Booz & Co.'s Blischok.

"The battleground is no longer on price," he explains. "The battle is being able to deliver on value in the fresh and perishables part of the grocery store." **PG**



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