

A woman with long dark hair, wearing a maroon patterned shirt, is looking thoughtfully at a shelf of products in a grocery store. She is holding a shopping basket filled with fresh produce, including lettuce and celery. The background is filled with various grocery items on shelves, creating a sense of a well-stocked store.

CLEARLY CHOOOSY.

THE CHANGING
GROCERY CONSUMER
AND THEIR IMPACT
ON THE CENTER
OF THE STORE



“When you’re finished changing, you’re finished.”

—Ben Franklin

THEY SAY THE ONLY CONSTANT IS CHANGE. Today, one of the biggest areas of change in retail sales is in the grocery store: the changing landscape of the retail supermarket and the changing purchasing behavior of shoppers. In the past, you could count on fairly distinct behavior from distinct demographic sets. Not anymore.

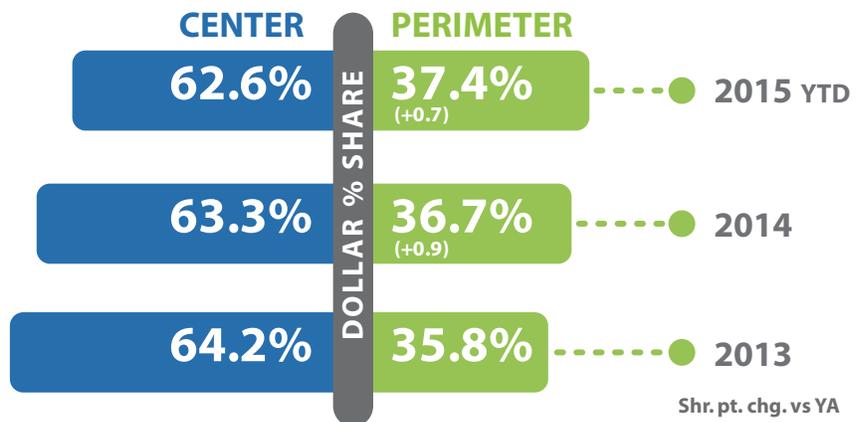
What millennials, Gen-Xers and Baby Boomers are looking for has collided in a fairly homogenous set of desires — fresh, natural, simple, organic, nutritious, good for you and convenient, just to name a few. And unfortunately, if you happen to be an iconic food company, you face even greater challenges because of a perceived legacy of mass-produced, overly processed foods with labels a mile long containing words only a scientist could understand. No doubt, a movement is afoot. And some companies have been caught flat-footed.

In the past 2 years, food sales at the center of the store lost 1.6% share of total purchases, while the perimeter gained share.¹ Over this same time period, the total volume of U.S. packaged food sales decreased by more than 1 percent each year.² The same customers who used to rely on quick meal solutions and processed foods that could faithfully stand by in the pantry for months are now looking for fresh, all-natural, organic ingredients from local farms and businesses.

What does this mean for food companies, both large and small, with historic roots or in start-up mode? To remain competitive, they must change not only the way they make their food, but the way they present it and talk about it.



IN THE PAST 2 YEARS, CENTER OF STORE HAS LOST 1.6% SHARE OF TOTAL STORE FOOD SPEND¹



¹ Allison, Carman. “Reinvigorating the Center of the Store.” Nielson, October 2015.

² Kowitz, Beth. “Special Report: The War on Big Food.” Fortune, May 21, 2015. <http://fortune.com/2015/05/21/the-war-on-big-food/>

A NATURAL EVOLUTION... OR REVOLUTION

While food preservation technology has been developed over millennia to keep food safe to eat, the tide is turning on many of these processes and foods. The shelf-stable foods that used to be convenient cupboard staples are now seen as unnaturally long-lasting and packed with artificial ingredients.

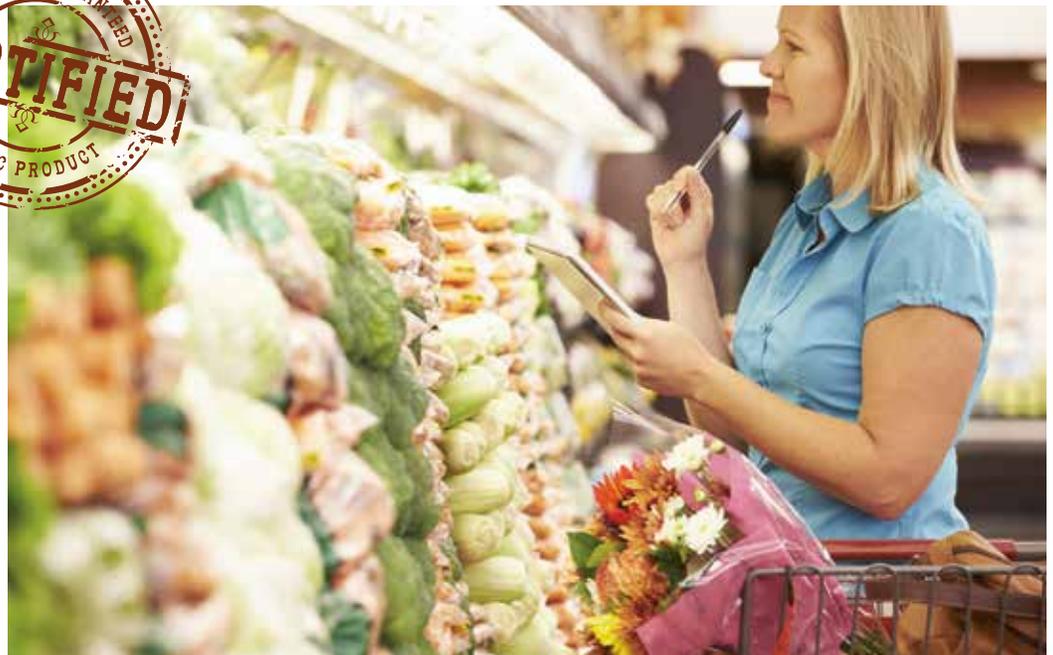
What consumers seek now, more than ever, are foods with organic and natural ingredients. Over the past decade, organic food sales have more than tripled, and last year alone they increased by 11% to \$35.9 billion, according to the Organic Trade Association.³

Even if they don't want to pay for certified organic foods, consumers still expect transparency in packaging and a minimum of artificial ingredients and additives. 68% of global consumers believe they should be able to recognize every ingredient on their food's label, and 40% think that their food should be made with as few ingredients as possible.⁴

This changing consumer behavior goes hand in hand with changes in health and diet trends. Half of Americans are actively trying to lose weight, and 60% view themselves as overweight. To try to lose weight, 59% of Americans report that they're trying to eat more fresh foods, and 45% report trying to eat less processed foods.⁵ Whereas the diet foods of the twentieth century focused on low-fat and low-calorie replacements, often found in the center of the store, wellness today encompasses trends such as local produce, gluten-free foods, organic alternatives, ethically sourced foods and minimal artificial or processed ingredients.

The change isn't likely to revert. Millennials are "better educated and are less brand loyal than earlier generations," according to Sanford C. Bernstein analyst Alexia Howard. This trend is exacerbated by the widespread use of social media to disseminate information about big brands, food trends and food safety — whether it be factual, or perceived.⁶

While 36% of Baby Boomers shop the perimeter of the store on all or most of their shopping trips, 48% of Millennials do.⁷



³ Kowitt.
⁴ Kowitt.
⁵ Allison.
⁶ Schultz.
⁷ Allison.

THE CHANGING FOOTPRINT AND FOOT TRAFFIC IN TODAY'S GROCERY STORE

With consumers more attuned to the ingredients and source of their food, one natural solution is to shop more along the perimeter of the store. Transparency in sourcing and clarity in packaging is driving sales growth along the perimeter — and while transparency in food growth, production and sourcing is early in its development, it is growing very quickly. In the past year, fresh perimeter sales in the U.S. grew 4.5% overall.⁸

In general, grocery retail is suffering due to the proliferation of channel choices for consumers. To get people into their store, retailers are working hard on their perimeter offerings. For instance, they up the convenience factor of perimeter selections by offering pre-prepped fruits and vegetables, prewashed produce in microwaveable steam bags, pre-seasoned meats and ready-to-serve meals. These fresh and convenient perimeter offerings are bringing consumers in, but time constraints are preventing them from shopping in the aisles — the retailers' major profit generator.



THE "DEMISE" OF THE CENTER STORE⁹

TOTAL STORE VOLUME GROWTH BY DEPARTMENT



Center-of-store food categories now make up around half of each meal, balanced on the plate with fresh food sold on the perimeter. This shift is part of a larger trend. A Nielsen report from 2015 identified 3 major challenges for the center of the store:

1. Slowing growth, with sales shifting to the fresh foods along the perimeter
2. Changes in consumer eating habits
3. Shopping shifts that create new alternatives in products and in retail.⁹

These shifts affect retailers as well as CPGs. Target, which represents \$15.6 billion in annual U.S. food and pet sales, has stated that it will adapt its grocery offerings to changing customer preferences, committing to less-processed foods in support of customers' wellness goals.¹⁰

The center of the store is by no means dead, but it is challenged — both by the fresh foods along the perimeter, and smaller challenger brands that consumers trust and perceive as more natural that are seizing real estate in the center of the store.

⁸ Gelski, Jeff. "Take the Lead in Transparency." Food Business News, Feb. 1, 2016. http://www.foodbusinessnews.net/articles/news_home/Consumer_Trends/2016/02/Take_the_lead_in_transparency.aspx.

⁹ Allison.

¹⁰ Schultz.

WITH CHANGE COMES OPPORTUNITY, BUT YOU HAVE TO BE WILLING TO CHANGE

The move to the perimeter, combined with changing consumer demands and brand distrust, present a challenge to traditional CPG giants. According to the Boston Consulting Group and IRI, between 2009 and 2014, around \$18 billion in sales shifted from larger to smaller companies across all CPG categories. Credit Suisse evaluated the shifts in food and beverage market share, reporting that the 25 largest companies lost more than 4 percent market share over the same 5-year period.¹¹

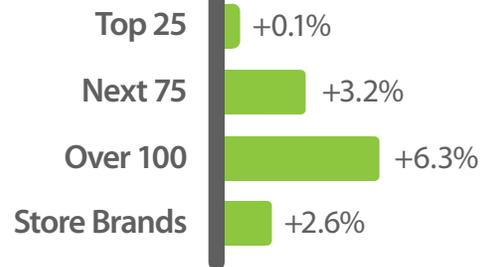
THE LARGEST MANUFACTURERS ARE NOT GROWING¹⁵



FOOD MANUFACTURERS



4 YR CAGR



“We understand that increasing numbers of consumers are seeking authentic, genuine food experiences, and we know that they are skeptical of the ability of large, long-established food companies to deliver them.”

—Denise Morrison

Gazelles, Unicorns, Mavericks — whatever you want to call them — seem to be outflanking the wise old Elephants of the industry. Challenger brands are perceived by consumers as more natural, ethical and trustworthy. Campbell Soup Co. CEO Denise Morrison recently stated at a financial meeting, “We understand that increasing numbers of consumers are seeking authentic, genuine food experiences, and we know that they are skeptical of the ability of large, long-established food companies to deliver them.”¹²

And it’s not just the companies, but the products themselves. American grocery store buying habits are shifting away from staples like cereal, soda, and juice. From 2009 to 2014, cereal sales dropped 5 percent. Over the past 18 years, soda sales have dropped 25 percent per capita, and orange juice consumption has dropped 45 percent per capita.¹³

Some CPGs are shifting their product formulas in keeping with consumer trends — such as adding gluten-free options or removing artificial ingredients, synthetic colors, aspartame and HFCS. However, they’re also trying to shift the way consumers view their products. For instance, soda brands are repackaging their products in smaller containers to frame it as a post-workout indulgence rather than a high-calorie meal supplement. Kellogg’s is working with celebrity chefs and food bloggers to try to reinvent cereal as a gourmet ingredient, rather than solely a standalone breakfast staple.¹⁴

These innovations can move the needle, but they can’t work on their own. Brands big and small need to stand out on the shelf and to telegraph to consumers that their products are natural, trustworthy and appealing. For that, they need a packaging partner who understands their needs and the challenges they face.

¹¹ Schultz.

¹² Kowitz.

¹³ Taylor, Kate. “Longtime staples of the American diet are in danger of going extinct.” Business Insider, Dec. 12, 2015. <http://www.businessinsider.com/soda-juice-and-cereal-consumption-down-2015-12>.

¹⁴ Taylor.

¹⁵ Allison, Carmen. “Reinvigorating the Center of the Store.” Nielson, October 2015.

A CLEAR SOLUTION: THE TRUVUE™ RETORTABLE PLASTIC CAN FROM SONOCO

Today's shoppers don't just want fresh and natural products — they also want trust and transparency in labeling and packaging. Delivering on these demands and communicating these purchasing cues requires changes in ingredients, product development, manufacturing, marketing and packaging.

So, what's a big food company to do? Or, a small food company for that matter?

Innovation + Branding + Packaging = Impact

At Sonoco, the development of innovative new packaging has been driven by four factors that drive today's consumers — a search for trust, transparency, freshness and natural ingredients. The question then becomes, what can packaging do to help deliver on those purchasing cues?

Our TruVue™ Can, made with Sonoco's patented FUSION Freshlock Technology™, taps into these desires and creates an opportunity to revitalize and reposition a wide range of products traditionally found in the metal can. The TruVue™ Can delivers full-surface visual transparency, which in turn creates dramatic shelf-impact, communicates a fresh brand image and signals the purchasing cues of better taste, freshness, authenticity and premium quality that today's shoppers are looking for.

And you can reinvent your brand, without reinventing your manufacturing process — the TruVue can runs on existing equipment, thereby minimizing additional investment, while providing your product and your brand the exposure they need to change shoppers' point of view — and change your brand's image in the process.

This new packaging opportunity paves the way for brands large and small to connect with a quickly expanding demographic that's willing to spend more for fresh, natural ingredients.



HEALTH

TASTE

QUALITY

TRUST

FRESH

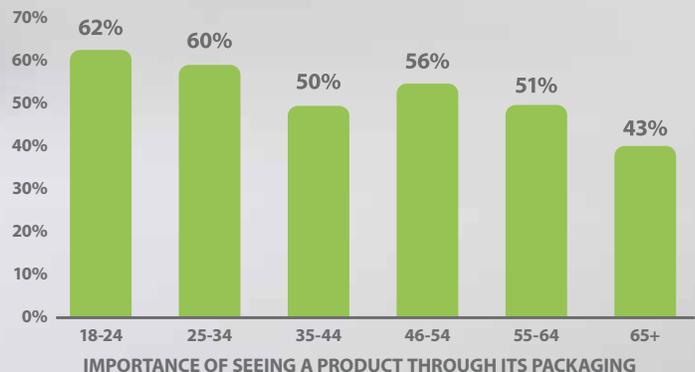
THE CONSUMER EXPERIENCE



SEEING
IS BELIEVING

THE "CENTER STORE" OPPORTUNITY

DISRUPTIVE INNOVATION TO CREATE RENEWED RELEVANCE



TRANSPARENCY BUILDS INTEREST — AND TRUST.

In a survey of more than 1,200 female shoppers who regularly purchase canned vegetables and beans, respondents identified the TruVue Can as a key driver of interest in an all-natural food brand because it allowed them to see what's inside the can.

And this phenomenon crosses all shopper demographics. Recent research from Mintel across individuals 18 to 65 and older reveals the importance of seeing a product through its package, ranging from 43% for those 65+, to 60% with shoppers 18 to 34, and above 50% for those 35 to 64.

In a recent survey by the research firm AccuPOLL, those surveyed overwhelmingly preferred the TruVue clear plastic can over metal — by 70%.

70%

Shelf appeal is crucial.

Now that products in the center of the store are not only competing against each other, but also against everything along the perimeter, shelf appeal is more essential than ever. The TruVue can helps brands stand out on crowded, overly labeled shelves. Traditionally, consumers view canned food as overly processed and full of preservatives. In contrast, focus groups described perceptions of freshness, quality and trust related to food packaged in the TruVue can.

Survey respondents identified the TruVue can as “appealing” and “distinctive,” signaling increased shelf appeal when compared to traditional canned food packaging. The clarity of the TruVue can provides the merchandising opportunity to use a “color blocking” effect on shelf, which creates visual disruption and captures shopper attention and that is half the battle when it comes to generating trial. And a subsequent boost in sales may boost related products as well. Research suggests that increased aisle traffic means more sales in every category on that aisle — not just the product drawing the traffic — resulting in a win in high-profit areas for retailers.

You don't have to sacrifice value.

All-natural and organic foods packaged in the TruVue can easily fall within consumer pricing expectations, and survey respondents ranked the price of all-natural food packaged in the TruVue can as “a good value,” with above-average to outstanding purchase probability. And the TruVue can's value doesn't stop with cost. Consumers also like that the can is BPA-free and microwaveable.





REVOLUTIONIZE YOUR BRAND WITHOUT REINVENTING YOUR MANUFACTURING PROCESS

MANUFACTURING BENEFITS:

- Easily customize can height and wall thickness
- Use existing assets — the **TruVue** can works on existing manufacturing equipment
- Maintain manufacturing processes — the **TruVue** transparent can is designed to withstand high temperatures and high pressure to work with your existing manufacturing processes
- Keep existing supply chain practices — the compression strength of the **TruVue** can accommodates the maintained warehousing and shipping practices of metal can users
- The **TruVue** can is (BPA-NIA) for food contact

MARKETING BENEFITS:

- Drive traffic in the center of the store with an exciting new presentation
- Showcase fresh and new flavors with a transparent container
- Take advantage of the color of fresh foods to enhance engagement and shopability of your category
- Leverage clear labeling and windows to signal trust and quality
- Position your product outside the traditional can aisle
- Work with Sonoco technicians to design a solution customized to the unique needs of your product and your brand

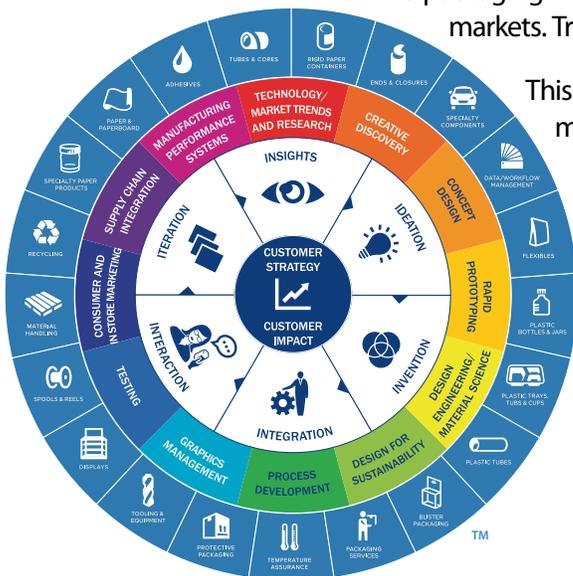
CONSUMERS LOVE IT!

- Overwhelmingly preferred (70%) to metal
- Believe that food will *taste better*
- Expect the product to be *fresher*
 - The "Deli" Effect
- Elevated *Brand Trust* through transparency
- Expect and willing to pay a *premium*
 - "You get what you pay for..."
- Even Boomers weren't afraid to change



GIVE YOUR BRAND MORE EXPOSURE, AND GIVE YOUR CUSTOMERS WHAT THEY ARE LOOKING FOR

Great products deserve a great package. TruVue offers food processors the opportunity to reinvent and reintroduce their brands, without reinventing their manufacturing processes. To succeed, you have to connect market and consumer insights with innovative package design and production — while striking the perfect balance between quality and value, marketing and manufacturing. At Sonoco, we work with our customers to craft a packaging-neutral 360° Customized Solution™ tailored to their specific needs and target markets. TruVue is just one example of how this process and partnership works.



This starts with our unique **i6 Innovation Process™**, which uses consumer and market insights to uncover challenges, behaviors and unmet needs that hold the promise of a marketing opportunity. We then follow a formal, collaborative and creative process to ideate, develop and test packaging solutions tailored to the unique needs of the brand, market and consumer. We are able to do this by offering the industry's broadest range of packaging formats and services, combined with a deep technical expertise in design, packaging, testing and material science.

To learn more about the TruVue™ Can, made with Sonoco's patented FUSION Freshlock Technology™, contact 360solutions@sonoco.com.

