FRESH PRODUCE
INDUSTRY OVERVIEW
NIELESEN PERISHABLES GROUP

September 2015
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STUDY BACKGROUND AND DATA SOURCES

Key messages and insights to be shared:
Through a partnership between PMA and Nielsen Perishables Group, a unique research project was created exclusively for PMA members based on existing research and available data. The analysis focuses on the U.S. with key global insights incorporated where applicable. The deliverable contains clear and actionable recommendations with detailed findings and statistics available for reference in the notes section of the presentation. Members should understand opportunities and trends for both short and long term success.

Nielsen Global Thought Leadership Reports/Analyses Utilized in Research:

- Nielsen Global Ecommerce Report
- Nielsen Global Middle Class Report
- Nielsen Perishables Group Point-of-Sale
- Nielsen Global Fresh Foods Report
- Nielsen Global Snacking Report
- Nielsen Global Health & Wellness Reports
- Nielsen Global Consumer Confidence Report
- Nielsen Global Private Label Report
- Nielsen Global Homescan Reporting
- Nielsen Global Point-of-Sale Data

* Full reports and country-level information (where available) can be purchased
EXECUTIVE SUMMARY

• Fresh produce volume (unit or pound) sales increased **8%** from 2010-2014 (double the rate of other fresh departments) and dollar sales increased **22%**
  • Products driving growth shared an ability to meet key consumer priorities such as convenience or quality

• Fresh produce is purchased by everyone across the globe, but the frequency and spend differs from country to country – and the U.S. ranks at the bottom

• Least affluent households spend significantly less on fresh produce than the most affluent households, but they are engaged with other forms of fruits and vegetables

• Branded produce dollars have significantly increased since 2010, and could continue to propel the department’s success

• Consumer packaged goods companies have taken notice of the growth sustained by fresh produce and have implemented a number of different strategies to return to growth

KEY FOUNDATIONAL CONCEPTS
U.S. PRODUCE SALES HAVE CONSISTENTLY GROWN

Volume sales increased 8% since 2010 indicating it’s not just prices driving growth

$63 BILLION department

+24% dollar growth

Dollar Sales

2010

2014

Products meeting key consumer needs have driven department growth since 2010 at twice the rate as the rest of perishables departments

CONVENIENCE

QUALITY/VALUE

HEALTH

VERSATILITY

Source: Nielsen Perishables Group FreshFacts® Historical Projected Database ending 12/27/2014;
SAME PRODUCTS AND FACTORS HAVE CONTINUED TO DRIVE GROWTH IN MOST RECENT YEAR

CONVENIENCE
Value – Added Fruit and Vegetables
$3.7 billion
+10% dollar growth

VALUE OF TRUSTED BRANDS
Branded Produce
$16.3 billion
+9% dollar growth

CLEAN LABELS
Organic Produce
$3.6 billion
+17% dollar growth

VERSATILITY
Avocados
$1.2 billion
+10% dollar growth

Source: Nielsen Perishables Group FreshFacts® 52 Weeks Ending 6/27/15
THE DEPARTMENT IS EVOLVING, AND SOME PRODUCTS HAVE ALREADY ADAPTED

- PORTABILITY
- MERGED PRODUCTS
- CONVENIENT MEALS
- EASIER TO CONSUME
- HEALTHIER LINES
- CONSUMER VS. COMMODITY APPROACH

Source: Nielsen Perishables Group
THE EVOLUTION EXTENDS TO NOT ONLY WHAT PEOPLE BUY, BUT WHERE THEY BUY PRODUCE

% department dollars by channel to Total U.S.

Traditional Grocery

TOTAL STORE

- $2MM+ Grocery
- Warehouse/Club
- Drug

39%

PRODUCE

- Mass Merch W/Supers
- Conv./Gas
- Dollar Stores

11%

13%

19%

68%

Polarized options gaining momentum

PREMIUM

VALUE
THE ONE CONSTANT IS WHO PURCHASES FRESH PRODUCE: EVERYONE

100% of households purchase fresh produce

....yet **57%** of baskets in the U.S. do not contain fresh produce....

....and not everyone shops as **frequently** or spends the same amount on fresh produce

HEAVY PRODUCE BUYERS ARE A SMALL, BUT VALUABLE GROUP TO FRESH PRODUCE

<table>
<thead>
<tr>
<th>Light Produce Buyers (produce share of total perishable dollars &lt;18%)</th>
<th>Medium Produce Buyers (produce share of total perishable dollars 18% - 40%)</th>
<th>Heavy Produce Buyers (produce share of total perishable dollars 40%+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>25% of households</td>
<td>52% of households</td>
<td>22% of households</td>
</tr>
</tbody>
</table>

Source: Nielsen Perishables Group via Homescan TSV Specialty Panel 52 weeks ending 6/27/15
DIFFERENCES IN AFFLUENCE, AGE AND CHILD PRESENCE DISTINGUISH THESE GROUPS

<table>
<thead>
<tr>
<th>LIGHT PRODUCE BUYERS</th>
<th>HEAVY PRODUCE BUYERS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Less affluent</strong> with annual income below $50K (60% of group with income below $50K)</td>
<td><strong>More affluent</strong> with annual income above $50K (60% of group with income above $50K)</td>
</tr>
<tr>
<td>Majority smaller households, but over-indexes with <strong>Families</strong></td>
<td><strong>No Kids</strong> under age of 18 (71% of households in this group)</td>
</tr>
<tr>
<td>Over-indexes with <strong>Boomers and Gen X</strong></td>
<td>Over-indexes with <strong>Millenials and Seniors</strong></td>
</tr>
<tr>
<td><strong>High School Graduate</strong></td>
<td><strong>College Graduate</strong></td>
</tr>
<tr>
<td>Over indexes with <strong>African Americans</strong> (but 75% white, in line with U.S. population)</td>
<td>Over indexes with <strong>Asians and Hispanics</strong> (but 76% white, in line with U.S. population)</td>
</tr>
</tbody>
</table>

Need to consider the different needs of these two groups and strategies for appealing to both of them.

Source: Nielsen Perishables Group via Homescan TSV Specialty Panel 52 weeks ending 6/27/15
THERE IS A DISPARITY BETWEEN U.S. SHOPPERS SPEND IN FRESH PRODUCE

Annual spend on fresh produce remained steady for light and medium produce buyers, but declined for heavy produce buyers

<table>
<thead>
<tr>
<th></th>
<th>Light Produce Buyers (produce share of total perishable dollars &lt;18%)</th>
<th>Heavy Produce Buyers (produce share of total perishable dollars 40%+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Times Fresh Produce Purchase</td>
<td>33</td>
<td>59</td>
</tr>
<tr>
<td>Annual Dollars Spent on Fresh Produce</td>
<td>$154</td>
<td>$550</td>
</tr>
<tr>
<td>Average Dollars Spent on Fresh Produce Each Purchase</td>
<td>$4.72</td>
<td>$9.36</td>
</tr>
<tr>
<td>Top 3 Category Spend</td>
<td>Packaged Salad, Potatoes, Tomatoes</td>
<td>Packaged Salad, Apples, Berries</td>
</tr>
</tbody>
</table>
| Fresh Produce Dollar Share     | Supermarkets: 65%  
Supercenters: 19%  
Club: 7%  
Other: 9% | Supermarkets: 68%  
Supercenters: 11%  
Club: 13%  
Other: 8% |
FROZEN PLAYS A CRITICAL ROLE IN COMPETITION WITH FRESH PRODUCE FOR EACH GROUP

Heavy produce buyers spend more on frozen fruits while light produce buyers spend more on frozen vegetables

<table>
<thead>
<tr>
<th>Annual Dollar Spend</th>
<th>Light Produce Buyers (produce share of total perishable dollars &lt;18%)</th>
<th>Heavy Produce Buyers (produce share of total perishable dollars 40%+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canned Fruits</td>
<td>$15.41</td>
<td>$17.04</td>
</tr>
<tr>
<td>Canned Vegetables</td>
<td>$36.65</td>
<td>$35.55</td>
</tr>
<tr>
<td><strong>Frozen Fruits</strong></td>
<td><strong>$13.99</strong></td>
<td><strong>$38.08</strong></td>
</tr>
<tr>
<td>Frozen Vegetables</td>
<td>$47.45</td>
<td>$36.61</td>
</tr>
<tr>
<td>Dried Fruit</td>
<td>$17.33</td>
<td>$25.70</td>
</tr>
<tr>
<td>Fruit and Vegetables Juices</td>
<td>$14.45</td>
<td>$13.70</td>
</tr>
</tbody>
</table>

Source: Nielsen Perishables Group via Homescan TSV Specialty Panel 52 weeks ending 6/27/15
THE PRODUCE DEPARTMENT IS EVOLVING, BUT NOT ALL COMMODITIES HAVE ADAPTED

KEY TAKEAWAYS

• Produce still outpacing all other fresh departments in growth
• Products that meet key consumer needs around convenience, health, versatility and quality/value have driven produce growth
• Where people purchase fresh produce is changing, though traditional supermarkets still account for the lion’s share of sales
• Differences in frequency of purchase and engagement with other forms of produce across the store

INDUSTRY IMPLICATIONS

• Produce is in a power position to drive store growth and now is the time for the industry to embrace this position
• Evolving and innovating to meet changing consumer needs has proven successful
• Important for produce to continue to adjust strategy and embrace all of the outlets where people are shopping for fresh produce
• Although everyone purchases fresh produce, still an opportunity to increase frequency and engagement by creating value beyond price

STRATEGIES TO CONSIDER:

• Work with retailers to continue showcasing produce’s voice in their store’s image and it’s importance to the consumer’s basket
• Identify innovation opportunities so products meet consumer needs, particularly around convenience
• Tailor strategy based on retail demographics and current shopper demand. One size does not fit all.
GLOBAL COMPARISON AND INSIGHTS
PRODUCE IN THE DRIVER’S SEAT FOR GLOBAL SUCCESS

DEPARTMENT FREQUENCY PER WEEK GLOBALLY

TRIPS

Fruits/vegetables: 3.2
Fish/seafood: 1.6
Deli: 2.2
Meat/poultry: 2.2
Dairy: 2.9
Bread/bakery: 3.0

TOP 5
1. Vietnam (4.5)
2. China
3. India
4. Thailand
5. Peru (1.8)

BOTTOM 5
1. Australia
2. Korea
3. New Zealand
4. Canada
5. U.S. (1.8)

With health the number one global concern after the economy, and consumers ranking produce as one of the leading factors for choosing where to shop, the produce department is primed for growth.

Source: Nielsen Global Fresh Foods Report,
THE NUMBER ONE GLOBAL CONCERN AFTER THE ECONOMY IS HEALTH

More than half of global households are attempting to eat more natural, fresh foods in an effort to lose weight.

Foods without additives or modifications are the most important among global households. These attributes include all natural, GMO free and organic (though level of importance differs from region to region).

Households in Asia Pacific and Latin America place a higher importance on sustainability attributes, including organic and local ingredients, than the global average.
FRESH PRODUCE ONE OF THE MOST COMMON SNACK ITEMS

Selection of fresh fruit and vegetables as a snack item vary by region

TOP 10 FAVORITE SNACKS BY REGION

<table>
<thead>
<tr>
<th>Region</th>
<th>Snack</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GLOBAL AVERAGE</strong></td>
<td><strong>1. CHOCOLATE</strong></td>
<td>64%</td>
</tr>
<tr>
<td>2. FRESH FRUIT</td>
<td>62%</td>
<td></td>
</tr>
<tr>
<td>3. VEGETABLES</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td>4. COOKIES/ BISCUITS</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>5. BREAD/ SANDWICH</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>6. YOGURT</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>7. CHEESE</td>
<td>46%</td>
<td></td>
</tr>
<tr>
<td>8. CHIPS/CRISPS</td>
<td>44%</td>
<td></td>
</tr>
<tr>
<td>9. NUTS/ SEEDS</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>10. GUM/ICE CREAM</td>
<td>33%</td>
<td></td>
</tr>
</tbody>
</table>

**EUROPE**
- FRESH FRUIT 62%
- CHOCOLATE 61%
- CHEESE 58%
- YOGURT 54%
- VEGETABLES 49%
- COOKIES/BISCUITS 45%
- BREAD/SANDWICH 42%
- CHIPS/CRISPS 38%
- NUTS/SEEDS 34%
- GUM 31%

**ASIA-PACIFIC**
- CHOCOLATE 69%
- FRESH FRUIT 65%
- VEGETABLES 57%
- COOKIES/BISCUITS 55%
- BREAD/SANDWICH 54%
- NUTS/SEEDS 49%
- YOGURT 48%
- CHIPS/CRISPS 43%
- DUMPLINGS 43%
- GUM 38%

**MIDDLE EAST/AFRICA**
- FRESH FRUIT 52%
- CHOCOLATE 51%
- BREAD/SANDWICH 47%
- CHIPS/CRISPS 43%
- CHEESE 42%
- YOGURT 41%
- COOKIES/BISCUITS 41%
- VEGETABLES 39%
- ICE CREAM/GELATO 33%
- POPCORN 26%

**LATIN AMERICA**
- YOGURT 66%
- CHOCOLATE 64%
- CHEESE 64%
- ICE CREAM/GELATO 63%
- FRESH FRUIT 57%
- BREAD/SANDWICH 55%
- VEGETABLES 50%
- POPCORN 49%
- CRACKERS/CRISPBREADS 45%
- COOKIES/BISCUITS 44%

**NORTH AMERICA**
- CHIPS/CRISPS 63%
- CHOCOLATE 59%
- CHEESE 58%
- COOKIES/BISCUITS 56%
- FRESH FRUIT 55%
- BREAD/SANDWICH 48%
- CRACKERS/CRISPBREADS 48%
- VEGETABLES 44%
- PEANUT BUTTER 44%
- POPCORN 43%
U.S. RANKS AT BOTTOM IN BOTH FREQUENCY AND SPEND OF FRESH PRODUCE COMPARED TO OTHER COUNTRIES

Fresh Produce Buyer Behavior

Annual Purchase Frequency

Annual Spend (USD)

Least Often

Most Often

Source: Nielsen Homescan and Nielsen Homescan Total Shopper View Specialty Panel (US)
HOUSEHOLDS AROUND THE WORLD VALUE FRESH FRUITS AND VEGETABLES, BUT DIFFERENCES EXIST

Shoppers prefer fresh fruit over vegetables. There is a **60% higher annual** spend on fruit in the country.

Consumers purchase fresh vegetables about **20% more often** than fresh fruit in Italy.

Relative to other European countries, both purchase frequency and total spend is **very low** in Produce.

Spend per occasion is nearly **2x higher** compared to the other EU countries for fruits and vegetables.

Among all countries, Spain has the **most trips** in Fruits and **second** most in Vegetables.

Consumers purchase Fresh Vegetables **more frequently than any other country**, nearly 1.7x the average.

Consumers purchase less frequently but have a **higher overall spend per trip**.

Shoppers prefer vegetables over fruits, with a **20% higher spend** on the category.

Source: Nielsen Homescan 52 Weeks Ending 6/27/15
CHANNEL PREFERENCES A PROMINENT DIFFERENCE ACROSS REGIONS OF THE WORLD

Globally, shifts toward stores that offer more affordable prices are occurring
THOUGH SOME COUNTRIES ARE STILL HOLDING ON TO THEIR CHANNEL PREFERENCES

In Latin America, many countries had an equal split between supermarkets, small fruit and vegetable stores and open air markets. Argentina, however, had an overwhelming preference for small fruit and vegetable stores.

In Europe, stark differences emerged as preferences, even among similarly developed countries such as England (supermarkets) and Spain (small fruit and vegetable shops).

In Asia Pacific, only Japan, Singapore, Australia and New Zealand rank supermarkets as preferred channel. All other countries ranked small fruit and vegetable stores or open air markets as the preferred channel. South Korea was the only one to rank hypermarkets number one. Only region where any countries ranked online as the preferred way to shop for fresh produce.

Source: Nielsen Global Fresh Foods Report,
BUT THE UNLIMITED SHELF SPACE OF ONLINE COULD ULTIMATELY CHANGE THE GAME

Over 1,000,000,000 global consumers willing to grocery shop online

25% already grocery shopping online
FRESH PRODUCE MORE IMPORTANT GLOBALLY THAN IN U.S., BUT OPPORTUNITIES STILL EXIST

KEY TAKEAWAYS

• Fresh fruit and vegetables most frequently purchased fresh products across the globe, though the rate of purchase and annual spend differs by region and country

• Development and interest of different commodities varies from country to country

• Channel preferences vary based on region’s development, but many countries are moving to more modern stores which allow for a better control of prices

INDUSTRY IMPLICATIONS

• No matter which country, fresh fruits and vegetables are important, but need to be cognizant of local market differences such as taste preferences and how they shop

• The world is growing increasingly connected, and shoppers now seek both native and foreign experiences - produce can provide innovative options in more markets than previously reached

• Across the world, produce has an opportunity to continue competing beyond price by innovating and engaging consumers and embracing evolution of retail channels

STRATEGIES TO CONSIDER:

• Understand and focus on most important channels today, but build distribution networks in channels where countries are moving

• Ensure global strategy aligns with key markets that have a heavy importance of fresh produce

• Consider where innovation and a consumer-centric focus in other countries could move products beyond the commodity mindset
IMPORTANCE OF HEALTH AND WELLNESS TO LOW INCOME HOUSEHOLDS
LOW INCOME HOUSEHOLDS TEND TO BE SMALLER

- 30% of households

**Single** member households (47% of income group)

**No kids** under age of 18 (78% of income group)

**Low education levels** (40% have high school degree or less)

**55 and older** (40% of income group)

**Majority white** (78%) but over index with **African American**

**LEAST AFFLUENT**

- Higher focus on convenient options
- Purchase products ready for immediate consumption
- Tend to dine away from home more often
- Idea of cooking is microwaving something
- Don’t plan out meals
- Consider healthy attributes very important, but are least likely to pay a premium for them

Source: Nielsen Perishables Group via Homescan TSV Specialty Panel 52 weeks ending 12/27/14
INCOME PLAYS AN IMPORTANT ROLE IN PRODUCE SPEND, OR LACK THEREOF FOR THE LEAST AFFLUENT

2014 share of fresh dollars by consumer group

Income doesn’t have to deter shoppers from purchasing fresh produce

Source: Nielsen Perishables Group via Homescan TSV Specialty Panel 52 weeks ending 12/27/14
MORE AFFORDABLE OPTIONS MAKE UP LARGER SHARE OF LOW INCOME PRODUCE DOLLARS

But opportunities exist for categories to appeal to both groups through package sizes and branded strategies.

HIGHER SHARE OF PERISHABLE SPEND BY LEAST AFFLUENT

$0.49/lb Categories not as price sensitive (inelastic)

CORN  MELONS  BANANAS  POTATOES

ONIONS  CITRUS  GRAPES

$2.98/lb Categories more price sensitive (slightly elastic)

APPLES  COOKING GREENS  PACKAGED SALAD  BERRIES

HIGHER SHARE OF PERISHABLE SPEND BY MOST AFFLUENT

Source: Nielsen Perishables Group via Homescan TSV Specialty Panel 52 weeks ending 12/27/14
TRADITIONAL GROCERY IS THE GAME CHANGER

Because of its importance to fresh produce, traditional grocery stores must focus on key categories where they aren’t securing sales from the least affluent

Average annual trip frequency

<table>
<thead>
<tr>
<th>Category</th>
<th>Least Affluent</th>
<th>Most Affluent</th>
</tr>
</thead>
<tbody>
<tr>
<td>BERRIES</td>
<td>4.5</td>
<td>7.3</td>
</tr>
<tr>
<td></td>
<td>2.8</td>
<td>2.8</td>
</tr>
<tr>
<td></td>
<td>3.7</td>
<td>5.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Least Affluent</th>
<th>Most Affluent</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITRUS</td>
<td>5.4</td>
<td>7.8</td>
</tr>
<tr>
<td></td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td></td>
<td>4.4</td>
<td>6.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Least Affluent</th>
<th>Most Affluent</th>
</tr>
</thead>
<tbody>
<tr>
<td>PACKAGED SALAD</td>
<td>7.8</td>
<td>10.9</td>
</tr>
<tr>
<td></td>
<td>4.2</td>
<td>8.8</td>
</tr>
</tbody>
</table>

Source: Nielsen Perishables Group via Homescan TSV Specialty Panel 52 weeks ending 12/27/14
MORE WAYS THAN PRICE TO MEET DIFFERENT CONSUMER NEEDS

Tiered offerings can allow different households sizes and income levels to still make purchases that satisfy their particular needs

PACKAGE SIZES
Bulk and Packaged

BRANDS
Branded AND Private Label/Unbranded

HEALTH/PRICE TIERS
Organic and Conventional

Source: Nielsen Perishables Group
INCOME PLAYS IMPORTANT ROLE IN PRODUCE PURCHASE AND SPEND

KEY TAKEAWAYS

• Low income households spend less of their disposable income on fresh produce than the most affluent households

• There are commodities where low income households spend a greater or lesser share of their produce dollars than most affluent

• Biggest gaps occur when not priced competitively or assortment does not meet consumer needs at supermarkets

• Possible to still reach these households by creating value beyond just price

INDUSTRY IMPLICATIONS

• As boomers continue to grow older and retire, must find ways to still engage a group

• Determine if commodity could appeal to both low and high income households through changes to package size or tiered offerings

• Produce sales will continue shifting across channels so distribution will be more fragmented

• Imperative to understand price sensitivity of different commodities to adapt appropriate strategies

STRATEGIES TO CONSIDER:

• Partner with other areas of the store such as the meat department where low income households spend a larger share of their perishable dollars to drive total meal solutions

• Determine where opportunities for distribution in new channels still exist

• Identify opportunities such as co-promotions, marketing or tiered programs to provide additional value beyond price
ROLE AND FUTURE OF BRANDED PRODUCE
BRANDED PRODUCE OUTPACES NON-BRANDED

From 2010, branded produce has climbed from 36% to 45% in dollar share of produce

Fresh Produce Branded vs. Unbranded
2010 – 2014, Dollar Share

Unbranded dollar sales increased $2 Billion from 2010 to 2014, but share declined because of the rapid growth of branded and private label products

Source: Nielsen Perishables Group FreshFacts® Historical Projected Database ending 12/27/2014
BRANDS HAVE MORE DEEPLY PENETRATED SOME CATEGORIES THAN OTHERS

Brands that have penetrated produce categories offer products that meet consumer needs

Categories with highest branded dollars

<table>
<thead>
<tr>
<th></th>
<th>BERRIES</th>
<th>CITRUS</th>
<th>PRODUCE BEVERAGES</th>
<th>PRODUCE SALAD DRESSINGS</th>
<th>PACKAGED SALAD</th>
<th>TOMATOES</th>
</tr>
</thead>
</table>

Convenience

Snack/Meal Solution

Innovative

Cross-CATEGORY Product Lines

SOURCE: NIELSEN PERISHABLES GROUP
FOR SUPPLIERS, BRANDS CAN OPEN A MYRIAD OF OPPORTUNITIES IN-STORE, ONLINE, AND PRINT

Brands open up new opportunities to work closely with retailers

**ADVANTAGES**

- Retailers and suppliers can **work together jointly** on in-store marketing and POS displays **to improve the overall shopping experience**
- Branded products **allow for increased packaging innovation** that can **benefit shelf life** and shrinkage issues
- Ability to target communication directly to consumers through packaging, **increasing product awareness** and stating **health claims**
- Branded products create a sense of **trusted quality** no matter where the product is purchase
- Brands have **more options to communicate/engage** with shoppers (social media, online)

**POTENTIAL ROADBLOCKS**

- Can be more expensive than private label or unbranded options
- Incur shrinkage losses if a new brand does not resonate with consumers
- Packaged products might not fit all households needs, where in contrast a non-branded bulk item allows a consumer to choose an amount that fits their needs
LABEL CLAIMS BETTER RESONATE WITH GLOBAL CONSUMERS THAN AMERICANS

Branded products have the ability to market claims on packaging, a huge benefit lost with bulk products.

A 2015 Global Nielsen survey shows that consumers are willing to pay a premium for health benefits.

- North America: 80%
- Europe: 79%
- Asia-Pacific: 93%
- Latin America: 94%
- Middle East/Africa: 93%

% of respondents willing to pay more for health benefits
RESEARCH SUPPORTS ADDITIONAL BRANDED AND PACKAGING DEVELOPMENT FOR FRESH PRODUCE

Communication should focus on specific health benefits of products rather than being lumped into a general “healthy” category often associated with produce.

A review of label claims between 2012 and 2014, shows that claims are the strongest when a product is already considered healthy.

75%....

% of respondents who stated they read label claims closely.

Nielsen Global Research and Survey Data
LIMITLESS OPPORTUNITIES AVAILABLE FOR BRANDED PRODUCE

KEY TAKEAWAYS

• Branded produce outpaced non-branded over the last five years with a CAGR of 12% (compared to 2% for unbranded)
• Produce brands have the opportunity to market specific health benefits of products
• Branded products allow suppliers the opportunity to engage and communicate with consumers
• Global consumers are willing to pay a premium for products that market a healthy claim

INDUSTRY IMPLICATIONS

• Fresh produce will continue to evolve and the race to draw consumers’ attention may spread throughout the department
• Consumers might start to gravitate toward products that clearly communicate various health benefits
• Branded produce will open up new marketing avenues to reach consumers
• Transparency, communicating health benefits particularly important abroad

STRATEGIES TO CONSIDER:

• Branded produce suppliers have the option to work with CPG companies on co-marketing initiatives
• Expand messaging to consumers through new packaging innovation, which allows for a great opportunity to include label claims and ability to articulate health benefits beyond “healthy”
• Increase assortment options and expand into the value added segment to begin telling a brand story
IMPACT FROM CONVERGENCE OF CPG AND FRESH CATEGORIES
**CPG MANUFACTURERS EAGER TO REVERSE SALES DECLINES WHILE FRESH PRODUCE GROWS**

**DOLLARS CHANGE FROM 2011 - 2014**

<table>
<thead>
<tr>
<th></th>
<th>FRESH</th>
<th>FROZEN</th>
<th>CANNED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change</td>
<td>+22%</td>
<td>+56%</td>
<td>+3%</td>
</tr>
</tbody>
</table>

Although fresh produce still accounts for about 75% of all fruit and vegetable sales, canned and frozen manufacturers are unlikely to accept consistent sales declines of their $11.4 Billion combined product categories.

Source: Nielsen Perishables Group FreshFacts® Historical Projected Database 2011-2014; Nielsen xAOC data 2011-2014
SOME CPG COMPANIES HAVE STARTED ACQUIRING FRESH BRANDS

But success isn’t guaranteed with larger marketing budgets and trade spend

Recent Health & Wellness Acquisitions
- Campbell Soup -> Garden Fresh
- ConAgra -> Blake’s All Natural
- WhiteWave Foods -> Earthbound Farms
- Cutrale-Safra -> Chiquita

“Momentous shifts favor smaller, more nimble players”
– Kraft Foods CEO, August 2014

“Sales for our core center-store products disappointed... fresh-packaged acquisitions performed strong”
– Campbell’s Company Press Release

Dollar % Change vs. Year Ago Period

<table>
<thead>
<tr>
<th>Year</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>5.6%</td>
</tr>
<tr>
<td>2012</td>
<td>0.4%</td>
</tr>
<tr>
<td>2013</td>
<td>10.7%</td>
</tr>
<tr>
<td>2014</td>
<td>16.6%</td>
</tr>
<tr>
<td>2015 (latest 52 Weeks)</td>
<td>10.2%</td>
</tr>
</tbody>
</table>

Acquisition in Q1 2014

“WhiteWave Foods Co. said its revenue grew 34% in the third quarter, helped by its Earthbound Farms acquisition” – Wall Street Journal, November 2014

SOME COMPANIES ARE TRYING TO FOCUS ON HEALTH AND WELLNESS WITH THEIR PRODUCTS

You can add...

Key departments leveraging popular fresh produce as ingredients in their items

Meats  Alcohol
Beverages  Snacks

Or remove...

Companies committed to removing ingredients from products

SUGAR/HFCS  Kraft  General Mills
NON-GMO  Hershey’s  Chipotle
HYDROGENATED OILS  Snackwells
FLAVORS & COLORS  Nestle  Snackwells  Aldi  Pizza Hut  Subway  General Mills  Unilever
ANTIBIOTICS  Costco  Tyson Foods  McDonald’s

Companies also adding seasonings and sauces to combat the growth of value-added fresh produce

Source: Nielsen Perishables Group
SOME CPG COMPANIES ARE PARTNERING WITH FRESH CATEGORIES TO SPUR SALES GROWTH
And the results have been extremely positive...

CASE STUDY: Global Soft Drink Company Partnered with A Deli Category

- New Category Buyers for Both Parties
- Higher Cross Category Sales
- Greater Buyer Conversions
- Increased Engagement with Millennials

Source: Nielsen Homescan Total Shopper View: 9/1/2013-8/30/14 versus year ago
# CPG COMPANIES ARE REACTING TO THE GROWTH OF FRESH PRODUCTS

## KEY TAKEAWAYS

- While fresh fruits and vegetables have grown tremendously since 2011, their frozen and canned counterparts have struggled.
- In part due to this, CPG companies increased interest in fresh company acquisitions.
- Another strategy has been to incorporate fresh ingredients to draw the halo effect.
- Some companies have turned to fresh products for partnerships to combine a broader reach and equity with the strong growth from fresh – and it’s working.

## INDUSTRY IMPLICATIONS

- CPG companies will continue to innovate and invest to return to growth.
- CPG companies often have larger marketing budgets, but may possibly be less nimble than a smaller fresh supplier.
- Finding the right partnerships could open doors to new shoppers or increase frequency of purchase.

## STRATEGIES TO CONSIDER:

- Communicate specific health benefits beyond “good for you”
- Engage with shoppers online or during their mobile shopping
- Move from a commodity mindset to a consumer-centric mindset
- Identify the next level of innovation to remain relevant and continue meeting consumer needs
- Considering CPG companies as friends for partnership opportunities instead of just foes
QUESTIONS?

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