

## **Economics and food choices: Consumer response to food price inflation**

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### **Highlights**

- Food inflation has led a large percentage of consumers to adjust how they budget for food purchases. Research conducted in 2008 and again in 2011 demonstrated that frugal shopping behaviors have been widely adopted and are affecting beef purchasing decisions.
- Consumers are reacting to the pressure of high prices at the pump, economic uncertainty and escalating food costs and one of the most common methods to cut household costs is to reduce the expense of food purchases.
- This study revealed that price sensitive consumers view steak as an expensive food and it often is at the top of the list for cut backs to reduce food expenses.
- Leveraging consumers' love of steak, its great taste and superior nutrition profile with recipes and information about how it can be affordable and a great value may resonate with price sensitive consumers as a means to increase beef purchases.

### **Introduction**

In the latter half of 2008, the checkoff market research team conducted a national consumer study to assess effects of the recession on food buying behavior. The study surveyed beef and chicken eaters who had influence on household food purchases and who thought food prices had increased in the past 6 months. That study found that 61 percent of American adult consumers were food price sensitive and that the higher cost of food, along with higher costs for such things as energy and gasoline had caused them to change their food purchasing patterns as a strategy to balance household budgets. A follow-up study was conducted in 2011.

### **Background**

#### *Food price inflation*

Food price inflation has been a topic of intense national and international concern and discussion, most notably since the beginning of 2011. Meat price inflation has been especially prominent and the bad news started arriving early.

Retail meat prices in January rose the most in seven years, as last year's accelerating food inflation extended into 2011 amid smaller cattle and hog herds. According to a February report, a meat price index tracked by the U.S. Bureau of Labor Statistics (BLS) rose 8.4 percent in January 2011 on a seasonally-adjusted basis compared to January 2010. That was the largest year-over-year gain for that month since 2004. Meat prices rose 7.2 percent in December compared with year-earlier levels and climbed an average of 7 percent over the six months preceding January 2011.

The BLS numbers show a climate of continually rising prices across a wide swath of food categories — a tally of 76 items ranging from ground beef to soda to dairy products. Measuring the April 2011 performance, the BLS found prices gained on 45 of the items it monitors. But over the past year the trend is much stronger, with 66 of the 76 items higher in price, some by staggering numbers.

### *Beef prices*

Moving further into the year, the U.S. Department of Agriculture (USDA) reported beef prices in May were 10.2 percent above May 2010, with steak prices up 6.3 percent and ground beef prices up 13.6 percent. USDA/ERS projected increased inflation for beef products for most of this year with beef prices projected to increase 7 to 8 percent in 2011.

Gasoline price increases alone are sufficient to cause consumers to alter their food purchasing behavior. A 2011 study published in the Journal of Marketing by researchers at Babson College, Syracuse University, Dartmouth and the University of Alberta found that for every dollar increase in the gas price per gallon, the average consumer reduces shopping frequency by about 10 percent and total expenditures by about 3 percent. As gas prices go up, the researchers said, people really feel a hit in their short-term budget and trimming the grocery budget is the first place shoppers look to make up the difference.

### *Economic pessimism*

Consumers also are increasingly pessimistic about improvements in the economy. A Harris Poll conducted in June found that optimism about the economy is dwindling. In February 2011, more than one-third of Americans (34%) said they expected the economy to improve in the coming year, one-quarter (25%) thought it would get worse and two in five (42%) believed it would stay the same. In June, just over one-quarter (26%) expect the economy will improve in the coming year, one-third (33%) say it will get worse and two in five (41%) believe it will stay the same.

A Reuters/IPSOS poll taken in mid-July found the number of Americans who believe the country is on the wrong track rose to 63 percent, up from 60 percent in June, driven by concerns about the economy.

A mid July Thomson Reuters/University of Michigan survey showed a preliminary reading for the consumer sentiment index dropped to 63.8 in July from 71.5 the month before, falling far short of expectations of an increase to 72.5. The survey's barometer of current economic conditions fell from 82.0 to 76.3, the lowest since November 2009. The gauge of consumer expectations was also at its lowest since March 2009, dropping to 55.8 from 64.8.

Recent consumer behavior shows a buckling-down and cutting-back mentality, possibly in preparation for hard times ahead, with consumers reducing spending even for what are considered everyday purchases.

In an environment of economic pessimism coupled with high prices for gasoline, energy and food, consumers adopt purchasing behaviors designed to reduce their costs. Many of these behaviors are focused on reducing food expenses.

### *Trading out/Trading Down*

The 2008 beef industry study found that consumer strategies for reducing food expenses often targeted beef. Price sensitive consumers whose beef purchases were affected fell into two main categories:

- Trading down: Beef down traders tended to be heavy and moderate beef users who do not want to give up beef and are staying in the category by buying less expensive beef cuts, buying smaller packages, buying on deal and buying less beef which they stretch in their recipes.

- Trading out: Consumers who were trading out of the beef category were switching to chicken or eating more meatless meal. Out traders tended to be light and some moderate beef users.

Although the 2008 study was conducted in a time when food price inflation was not as significant, the recessionary environment caused consumers to think prices had increased – 87 percent of consumers felt prices had increased. In 2011, when food price inflation is significant, 82 percent of American adults thought prices had increased in the past six months.

#### *The new normal*

Some analysts have said that consumers will adapt to higher food prices over time and view the higher prices (and the resulting frugal behavior) as “the new normal.” A subsequent 2011 study of consumer response to food price inflation found many of the same food cost-cutting strategies as in 2008 and suggests that there may, indeed, be a consumer view that high food prices and cost-cutting response is the new normal.

#### **Discussion**

The 2011 study found that 60 percent of American adult consumers overall are food price sensitive (same as in the 2008 study). Among those respondents who eat beef and chicken, influence household food purchases and think food prices have increased, 63 percent say the higher cost of food has caused them to change their food purchasing patterns as a strategy to balance household budgets. Of concern, 61 percent of price sensitive respondents say that higher food prices are creating financial hardship.

#### *Price perceptions*

Overall, 82 percent of consumers surveyed felt that food prices had risen in the past six months. Price sensitive consumers feel that prices for fresh beef steak, fresh fruit and fresh vegetables had increased the most in the past six months followed by fresh ground beef, milk, fresh chicken breast and fresh whole chicken.

Figure 1



This study focused on the food purchasing behaviors of beef and chicken eaters who are involved in household food decisions, are price sensitive and who have made changes in food purchasing habits because of economic pressures. This group comprises almost half of all beef eaters.

*Frequency of consumption*

Beef consumption remains fairly strong with 72 percent of price sensitive consumers saying that over the past six months they eat beef for lunch or dinner either at home or at a restaurant at least once a week, but still lower than chicken's 86 percent.

Figure 2

Type of Food	Less than once a week (Light)	1-2 times a week (Moderate)	3 or more times a week (Heavy)
<b>Beef</b>	<b>29</b>	<b>49</b>	<b>23</b>
Pork	54	38	8
Lamb	89	8	3
Chicken	14	48	38
Fish & Seafood	57	35	8

*Consumption trend*

Consumption of beef has remained steady in absolute terms when comparing 2011 with 2008. However, consumption patterns reveal a shift away from heavy consumption in the direction of light consumption. This trend holds true both in the broader general population as well as among price sensitive consumers.

Figure 3

All adults	Light consumption	Moderate consumption	Heavy consumption	Don't eat beef
2008	17%	45%	32%	6%
2011	26%	46%	21%	7%
<b>Price sensitive beef eaters</b>				
2008	19%	46%	35%	N/A
2011	28%	49%	23%	N/A

In comparison to 2008, currently fewer consumers are trading out of the beef category, a potential indicator that most “price defectors” left the category during the recessionary pressures of 2008/2009. The majority of movement within the beef category is “trading down” – this behavior has increased significantly across all consumption levels. Among the heaviest beef consumers, there is an increase in the proportion of consumers who report they are making no changes in purchase behavior. Again, this may indicate the new normal with consumers retaining the frugal behaviors they developed as a result of recessionary pressures over recent years.

Figure 4

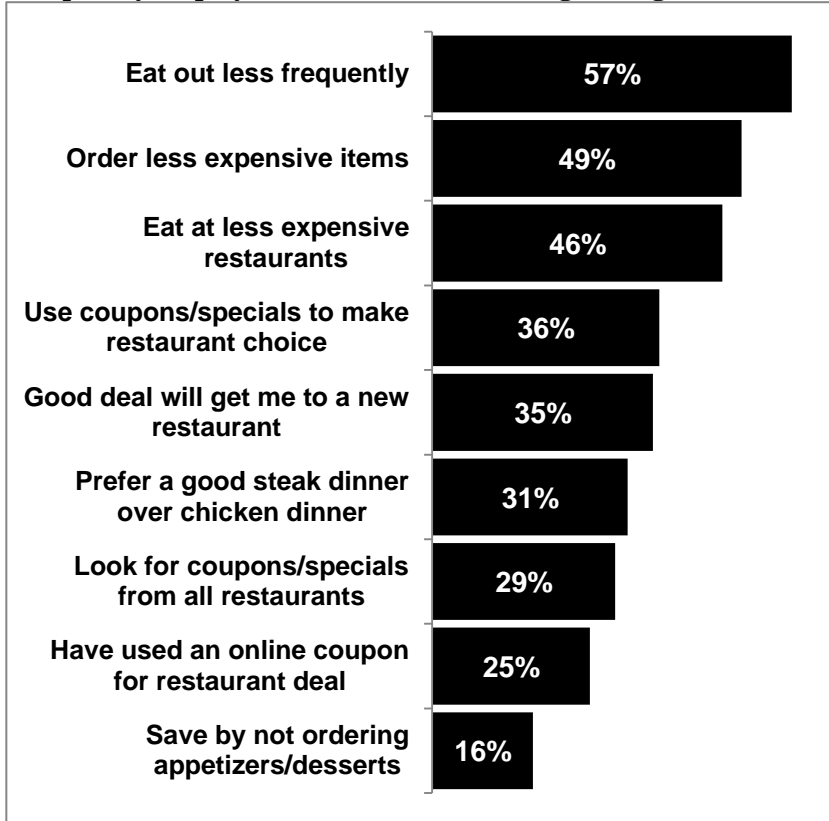
	Light consumption	Moderate consumption	Heavy consumption
<b>2008</b>			
No behavior change	19%	13%	10%
Trading down in beef	31%	45%	61%
Trading out of beef	50%	42%	29%
<b>2011</b>			
No behavior change	15%	14%	18%
Trading down in beef	47%	57%	67%
Trading out of beef	38%	29%	16%

*Cost-saving strategies - foodservice*

The primary way consumers are saving money at foodservice is simply eating out less frequently, ordering less expensive menu items and eating out at less expensive restaurants. It should be noted that 31 percent of respondents said they frequently prefer a good steak dinner deal over a chicken dinner deal. This suggests that foodservice operators offering beef deals will bring in customers. In connection with that, more than a third (36%) percent of respondents say they frequently use coupons and advertised specials to select a restaurant to visit.

Figure 5

**Frequently employed foodservice cost-saving strategies**

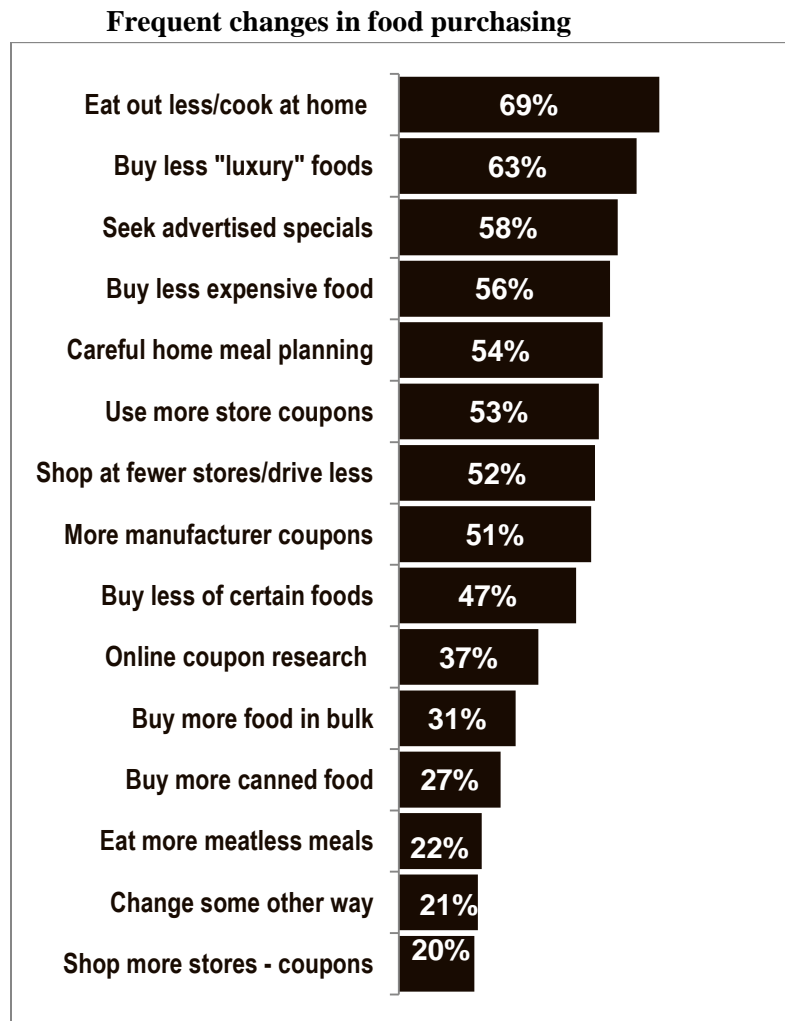


*Cost saving strategies – food shopping*

Consumers are employing a variety of strategies to reduce their food costs with *eating out less and cooking at home more often* and *buying less of foods they consider luxury or special occasion foods* being the changes the highest percentage of consumers say they are doing frequently. More than half of consumers say they frequently *look for advertised specials, buy less expensive food, do more careful meal planning, use more store and manufacturers coupons, and shop at fewer stores and drive less*. The least used tactics are *shopping at more stores than before because I collect coupons from several stores and researching prices and coupons online*.

In connection with advertised specials, almost half (46%) of respondents said they were likely to buy more beef if they saw a store offering coupons or special deals even if the price is a little higher than it was six months ago. This suggests that featuring remains a valuable way to build beef sales.

Figure 6



### **Analysis of cost-saving strategies**

#### *Buying less luxury or special occasion foods*

Sixty-three percent of respondents say they save money by purchasing less food they consider to be luxury foods or foods for special occasions. Beef figured prominently in the list of foods consumers consider luxury or special occasion foods. When asked what foods were considered luxury/special occasion foods, 62 percent of respondents mentioned beef – 42 percent said steak, 13 percent mentioned a specific steak cut and 7 percent mentioned beef generically. Seafood was mentioned by 16 percent of respondents, 13 percent mentioned lobster, 12 percent mentioned desserts and 10 percent mentioned shrimp.

#### *Purchasing less expensive food*

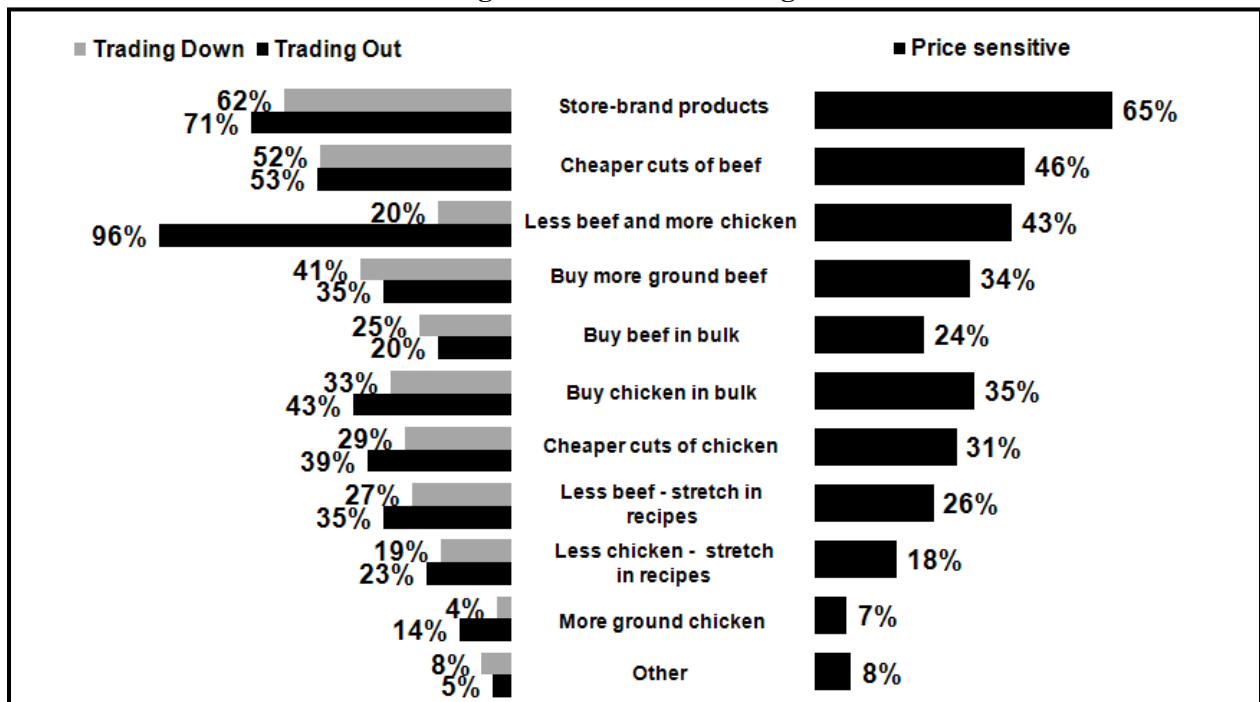
Fifty-six percent of consumers say they are dealing with high food costs by frequently (buying less expensive food and cutting the cost of meals. Store-brand products are the most commonly purchased “less expensive” foods.

Those trading out of the beef category are generally more likely to purchase a wide range of less expensive foods, where those trading down in beef are more likely to use more ground beef and purchase beef in bulk. Virtually all those trading out of beef report they are compensating by purchasing more chicken.

Given the high percentage of price sensitive consumers who are buying less expensive cuts of beef to reduce expenses, it may be helpful to provide information about how to choose expensive cuts and how to prepare those cuts to assure a good beef experience.

Figure 7

**Percent of respondents buying less expensive food – overall price sensitive compared to those trading down and those trading out of beef**



*More careful meal planning*

More than half (54%) of survey respondents say they frequently cut costs by doing more careful home meal planning.

Buying meat on sale and freezing it is one of the top meal planning strategies consumers are using to reduce food costs. Market research in 2010 and 2011 discovered that difficulties associated with defrosting beef for a week-night meal is a significant barrier to increased beef usage. This research is driving further analysis in 2012 in connection with a culinary team project to test defrosting methods and

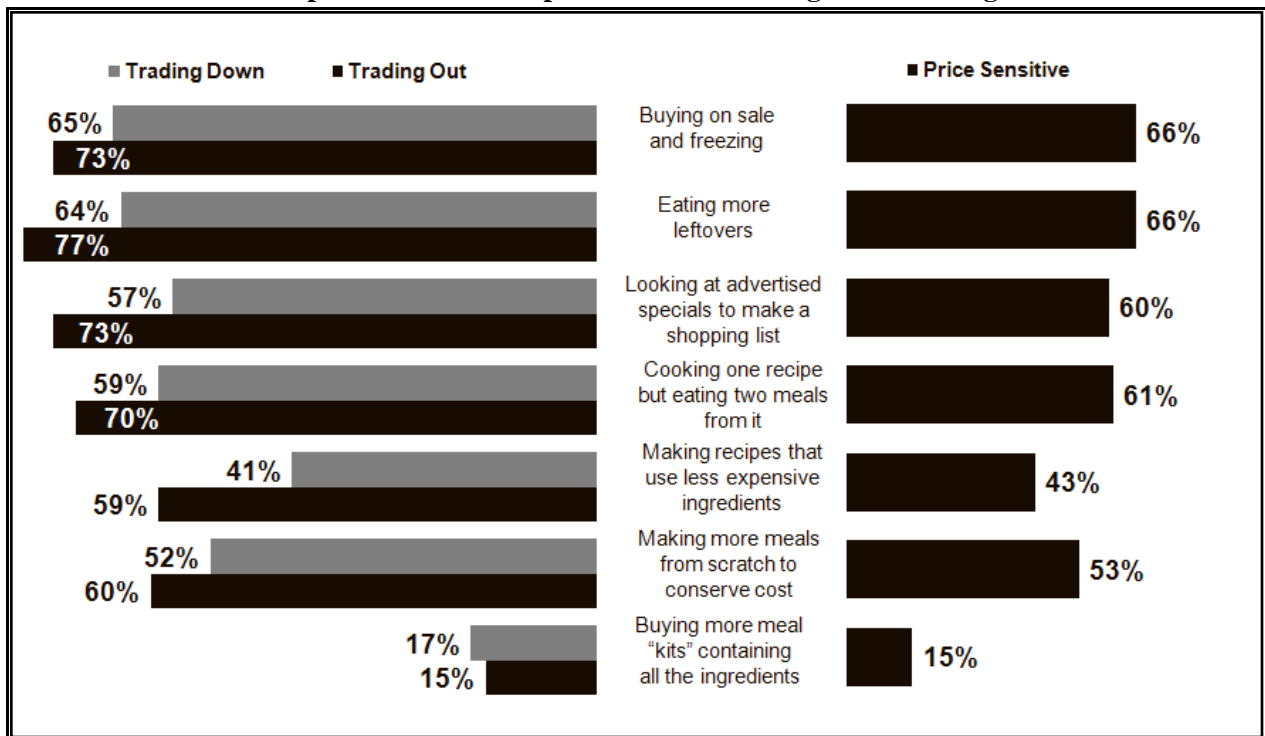
develop consumer information to overcome this barrier. Information to assist consumers in proper packaging and freezer storage, and defrosting can result in increased beef usage.

Stretching food is a key strategy in meal planning, either through eating leftovers or eating multiple meals from a recipe. Those trading out of beef are much more likely to cook one recipe and eat two meals from it. This suggests that showing beef’s economic value by providing these type recipes for beef might bring some out-traders back. Out-traders also are much more likely to eat leftovers. Beef meal planning information that shows creative ways to use beef leftovers also might be persuasive and demonstrate economic value.

Consumers also seem interested in cost avoidance, but not at the risk of influencing quality. Shopping based on advertised specials is important, but using less expensive ingredients is less so. Meal “kits” are rarely used in planning. In addition to making changes in the way they shop, those trading out of the beef category are making significant changes to the ways in which they plan meals, especially when compared to price sensitive consumers overall.

Figure 8

**Percent of respondents taking actions to do better meal planning overall price sensitive compared to those trading down/trading out**



*Buying less of certain foods*

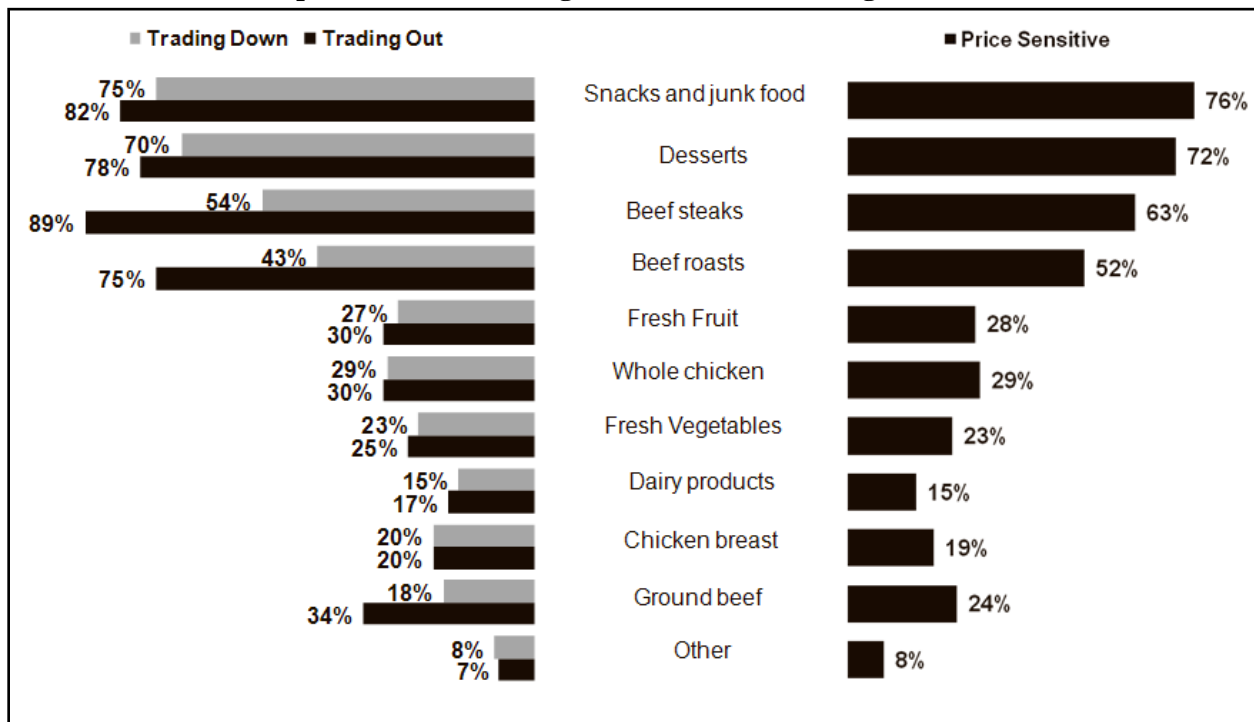
Forty-seven percent of respondents said they were cutting food costs by frequently buying less of certain types of foods. When asked the types of food they are purchasing less often, the largest number of respondents named snacks and junk food, and desserts but beef steaks and beef roasts were the third and

fourth most named foods. Slightly less than a fourth said they were buying less ground beef and just under a fifth named chicken breast.

Not surprisingly, those trading out of the beef category are much more likely than beef down-traders and price sensitive consumers overall to report they are buying less steaks, roasts and ground beef. Among those trading down in the category, reductions in beef purchases are actually less likely compared to all consumers.

Figure 9

**Percent of respondents buying less of certain foods – overall price sensitive compared to those trading down and those trading out of beef**



### Conclusions

The results of this study clearly show that consumers are reacting to pressures including high prices at the pump, economic uncertainty and escalating food costs. It also is clear that when consumers seek to cut costs in their household budgets, reducing the expense of food purchases is a major strategy.

The study findings also suggest that consumers may view higher food prices and their frugal shopping behaviors as a new normal. These data seem to validate studies done in 2010 as the country moved out of the recession which found that consumers retained their frugal mindset and, in fact, said they did not intend to go back to their old ways of spending.

The study also clearly shows consumers have a perception that beef steak and, to a lesser extent, roast, is an expensive food and thus it is a primary target in strategies to reduce food costs. Steak leads or is near the top of almost every category in which price sensitive consumers say they limit consumption of certain foods in order to reduce their food costs.

The study identifies some important opportunities to change the perception of price sensitive consumers that steak is an expensive food at the top of the list for cut backs to reduce food expenses. Leveraging consumers' love of steak, its great taste and superior nutrition profile with information and recipes showing it can be affordable and a great value can resonate with price sensitive consumers whether they are down traders or out traders.