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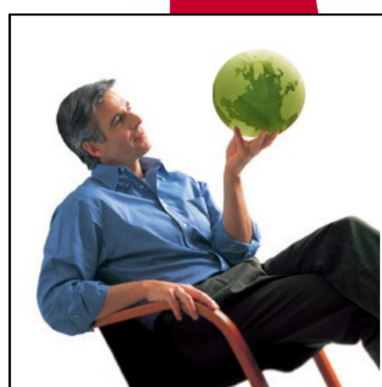
International Markets Bureau

MARKET ANALYSIS REPORT | NOVEMBER 2009

Consumer Trends Report

Premium Foods and Beverages in Canada



Growing Forward

Canada

INTRODUCTION

Consumers are changing the way retailers, manufacturers and producers think about and define premium foods and beverages. In 2007, the Canadian Council of Grocery Distributors (CCGD) conducted a study, "*Emerging Consumer Demand for Premium Foods and Beverages in Canada*", to better understand the growth opportunities for Canadian food and beverage producers, manufacturers and retailers. This report provides an overview of this study and includes the evolution of consumer perceptions towards premium and some key findings related to capturing opportunities in this niche market area. The complete study, "*Emerging Consumer Demand for Premium Foods and Beverages in Canada*" including a literature review and a qualitative research report can be found on the CCGD website at www.ccgd.ca.

A PREMIUM PRIMER

Public opinion research has identified quality as a primary consideration when purchasing premium food and beverage products. A 2007 Agriculture and Agri-Food Canada study, "*Consumer Perceptions of Food Safety and Quality: Further Analysis and Information Development*", found that consumers defined a premium product as being "top quality", a description that identified product attributes such as ingredients, taste, price, nutrition, and production method. More recent qualitative work drilled down into attitudes towards premium and found that consumers connected with premium in a much more personal and emotional way. Expressions and phrases used in connection with premium portrayed stories and emotions that went well beyond the utility and function of the product. In "*Premium Food Experiences",* a report published by The Hartman Group Inc., consumer language used to define premium was much more extensive and was categorized into four key themes: quality, experience, limited, and intuitive. This language became even more defined when premium was considered specifically in relation to food and beverages. Rational product characteristics like "good ingredients" and "not processed" remained, however, emotional language was equally prevalent with words like "unique" and "not mass produced" being used to describe premium foods and beverages (Figure 1).

KEY FACTORS

1. Quality is Essential

Even as the definition evolves, consumers remain consistent in their belief that premium reflects top quality. Retailers, manufacturers and producers must consistently deliver on both the implicit and explicit quality promises of premium.

2. Premium fulfills a greater need

Lifestyles, life stages, attitudes, beliefs, and occasions influence premium choice. Purchase motivations vary greatly depending on the category, the occasion and the consumer's level of involvement in the category. It is important to remain current with consumer trends to know what is most relevant this segment of shoppers.

3. Indulgence can be everyday, any day

Indulgent products respond to the need to take a break, to reward oneself, or add variety. Increasingly, products once only available in specialty boutiques and markets are now being offered to consumers in local grocery stores and other mainstream food retailers.

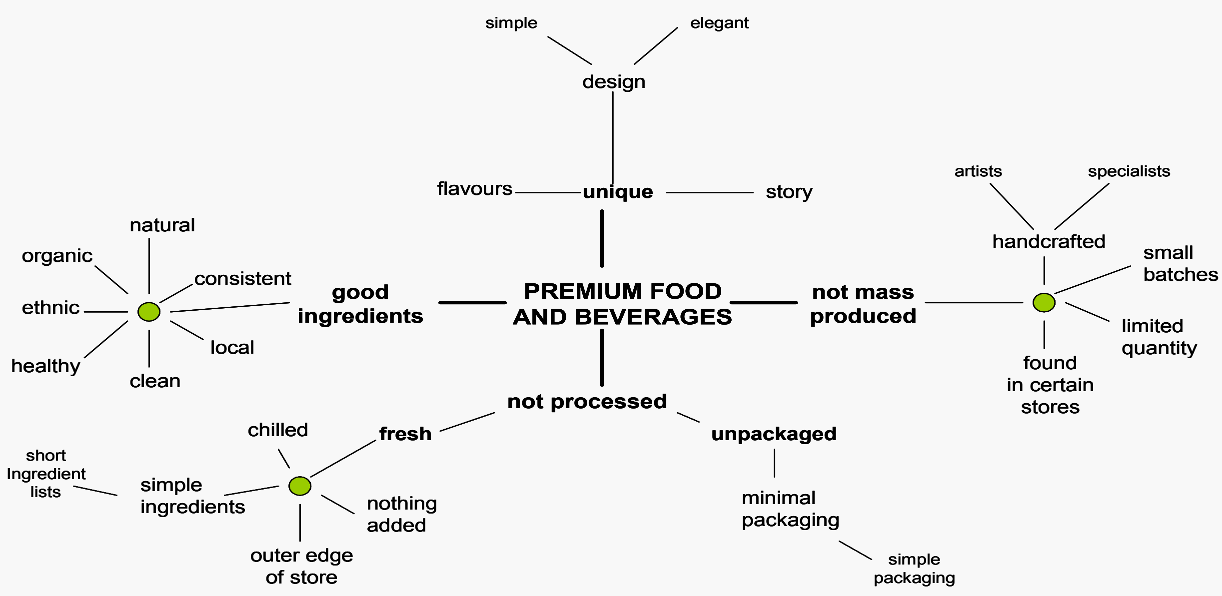
4. Expert knowledge is desired

Consumers expect producers, processors and retailers to have a range of knowledge and expertise about the food they are bringing to their tables. Those at point-of-sale in particular are increasingly being called on to provide recommendations, explain processing and manufacturing approaches, and communicate and validate the authenticity of the premium product.

5. Language is crucial to gain desired positioning

Consumers think of premium foods in terms of positive language (e.g., unique, authentic, local, fresh) and that is exactly how they should be positioned. Negative labels, aggressive positioning and fear

Figure 1. Characteristics of Premium Food



Source: Copyright © 2007. Tinderbox is a part of The Hartman Group, Inc. Premium Experiences2007, page 29

These descriptors help demonstrate why premium purchases are triggered when conventional products do not fulfill the "higher level" emotional and rational needs of specific consumers.

Premium consumers seek more information about their food as they tend to be more concerned about the impact food choices will have on the environment, animals, other people and themselves. They set higher standards, expect differentiated and quality products and demand more responsibility on the part of retailers, manufacturers and producers to deliver on their demands. Shoppers, while remaining in some ways value or price conscious, are willing to pay extra for something special if it authenticates or supports their needs.

The Hartman Group went on to further illustrate premium consumers' perspectives in terms of distinct zones, each with its own criteria for what determines premium (Figure 2). At the periphery level, consumers made decisions typically based on price, convenience, or a recognizable brand name. At the mid-level, consumers made decisions more in terms of what they knew or heard about the product and the source of that information. Premium decisions made at the inner-most core level were based

▶ KEY FACTORS

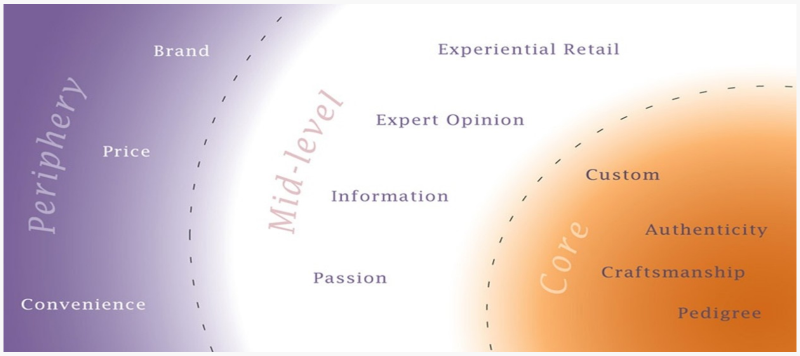
5. Language is crucial to gain desired positioning (cont'd)

mongering statements are not appealing to those interested in premium foods and beverages.

6. Private label is redefining premium

Retailers have been responding to their customers by designing products to provide a specific solution or option where their needs and wants are being left unmet. As retailers continue to engage with consumers in this manner, they gain credibility and trust – earning the permission or the "right" to compete in a premium food or beverage category along side traditional premium products.

Figure 2. The World of Premium



Source: Premium Experiences 2007, Tinderbox, part of The Hartman Group, Inc., Copyright © 2007

on a sense of customization and authenticity. Consumers may move from one zone to another, depending on the product, the occasion in which they are consuming, their level of experience and who they share the product with.

WHERE PREMIUM MATTERS

The impact of premium can be generally broken down into four major consumer priorities that cover the major shifts in today's food trends.

Health, nutrition and wellness

Consumers, particularly premium food and beverage purchasers, place more emphasis on the importance of personal health and are willing to invest the time and money required to make it happen (Table 1). Research indicates that consumers will be seeking healthier options ranging from buying fresh and local to the inclusion of functional foods in their diets, as the focus on wellness grows stronger.

Indulgence and luxury

Indulgent product purchases are an opportunity for consumers to escape from the everyday, even if only for a few minutes. In many ways, indulgence is the opposite of convenience. When consumers are indulging, they are looking to slow things down, relax and enjoy their food. Food becomes entertainment, a way to socialize, engage with others and share unique experiences. Consumers seeking indulgent premium products are often in search of exclusive, unique and customized experiences.

Convenience and Immediacy

For the premium consumer in search of convenience, there is an expectation that convenience will not mean sacrificing quality, taste or health. As lifestyles become increasingly demanding, consumers expect their food and beverages to keep pace. Providing a premium, convenient option tells the customer that retailers and manufacturers understand their

KEY FACTORS

7. Consumers are more interested in food experience

Premium food consumers eat for pleasure and benefit as well as to feed a hunger. Originally an option more for specialty stores, tourist destinations or farmers' markets, consumers can increasingly find such food experiences in their local grocery stores. For example, more retailers are highlighting ethnic or exotic cuisine, providing opportunities to experiment with new flavours and ingredients.

8. Customizable premium products

As producers, processors, and retailers become more attuned with their customers' expectations, customized with their customers' expectations, customized solutions to fulfill individual needs and wants are expected. This helps consumers to create a personal brand as they pick and choose the ingredients and flavours that reflect their own personal style.

9. Average is just not good enough any more

Consumers integrate specialty or premium products into their daily lives on a more regular basis. This attitude shift clearly drives increased purchase frequency for premium foods and beverages that transition into the mainstream.

10. Health benefits will drive growth of premium

Consumers of all generations look for more natural and holistic approaches to well-being. As consumers age, and health concerns are more top-of-mind for a much larger proportion of the population, foods with specific well defined health benefits will increase in terms of both penetration and frequency.

lifestyles, challenges and struggles that prevent them from preparing it for themselves.

Production values and ethics

Consumer demand for natural, transparent and traditional food sources increases as their knowledge about food grows. Messaging that implies processed, genetically modified/ engineered or pesticide use are perceived as negatives to many consumers and more individuals are actively avoiding them, opting for a “less is more and better” ideology when it comes to the food they eat. Single origin, fair trade, handcrafted and farmstead fresh are meaningful attributes to consumers creating an emotional connection between farmers, producers and manufacturers.

“Pick ’n’ Pack Meal“

Today’s snack meal is an increasingly deliberate and planned meal occasion that needs to offer a balance between nutrition, convenience and taste. Convenience is important to the snack meal as it is often carried from home, particularly for early to mid-day eating occasions. Since the early parts of the day are the territory of health, hunger and habit, it makes sense that the top growing foods at snack time are better for you items, such as sandwiches, nuts and salads. These are certainly not traditional snack food items, but as consumers look for healthier, but quick, snack foods, they will reach for easy foods they are used to eating at other meal occasions. Manufacturers can capitalize on this unmet need in the market, by offering consumers snacktime formats of their favourite foods. The demand for readily available, healthier snacks means that the behaviour of loading pantries with snacks is growing. More pantry loading behaviour means that retail channels supporting healthy pantry loading, like club and grocery, are gaining consumers, while traditional impulse snack venues, like c-stores and foodservice, are losing consumers.

Source: NPD Eating Patterns in Canada Report, 11th Annual Edition, November 2008

KEY FACTORS

11. Convenience continues to drive choice but not at the expense of quality or taste

As consumer demand for better, healthier, faster and easier grows, so does the range of convenience food and beverage options for the home. Generic terms such as “easy-to-open” or “quick-to-serve,” no longer have appeal as consumers now expect more from their convenience products.

12. Ethics are paramount

Premium food consumers care about the impact that both business practices and products have on the future. Retailers, manufacturers, and producers are being forced to publicly state how they contribute to a more sustainable world. Consumers who purchase products because of their “social conscience” can be quick to abandon a favourite product if their expectations aren’t met or the actions of the producers or corporation fail to meet their standards.

Consumer survey: the propensity to take active steps to eat more healthily more or less often, in 15 countries across Europe, Asia Pacific, South America and the US, by country, 2008

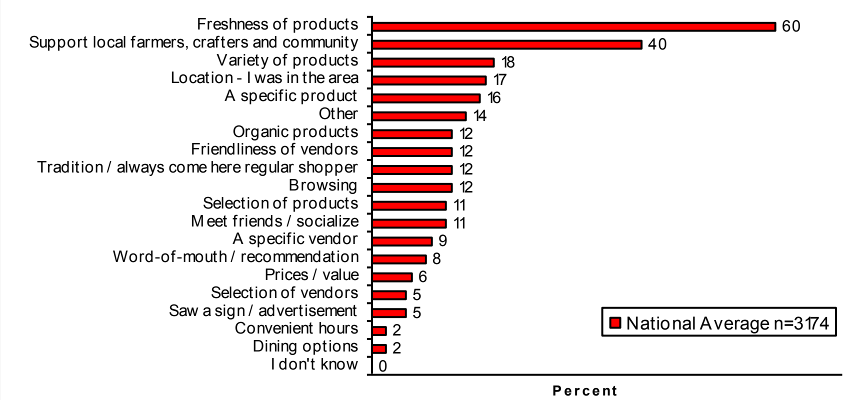
Table 1. Answers to the question: In the past SIX MONTHS, please indicate to what extent you have done the following more or less frequently? **Taken active steps to eat more healthily**

	France	**Germany**	**Nether-lands**	**Italy**	**Spain**	**Sweden**	**UK**	**US**
Total More	41.9%	28.3%	32.8%	48.7%	44.1%	35.8%	48.0%	51.9%
No change	53.7%	47.7%	61.4%	48.3%	51.4%	60.2%	48.2%	42.3%
Total Less	4.4%	24.0%	5.7%	2.9%	4.5%	4.0%	3.9%	5.6%
	Australia	**Brazil**	**China**	**India**	**Japan**	**Korea**	**Russia**	**Total**
Total More	58.6%	72.0%	71.0%	80.4%	25.7%	51.1%	51.4%	49.4%
No change	38.8%	24.2%	27.2%	15.9%	70.6%	41.9%	37.5%	44.3%
Total Less	2.6%	3.8%	1.7%	3.6%	3.8%	7.0%	11.0%	6.3%

NB: Total More is an aggregation of respondents who stated ‘significantly more’ or ‘more’. Total Less is an aggregation of respondents who stated ‘significantly less’ or ‘less’

Source: Datamonitor Consumer Survey, August 2008, ©Datamonitor

Figure 3. What Motivated or Influenced You to Visit this Farmers' Market?



Source: Consumer Survey, National Farmers’ Market Impact Study 2009 Report

▶ KEY INFORMATION SOURCES

1. *Emerging Consumer Demand for Premium Foods and Beverages in Canada Literature Review, 2008, Ipsos-Reid for* CCGD
2. *Emerging Consumer Demand for Premium Foods and Beverages in Canada Qualitative Research Evaluation, 2008, Ipsos-Reid for CCGD*
3. *Consumer Perceptions of Food Safety and Quality: Further Analysis and Information Development, 2008,* Ipsos-Reid for AAFC
4. *Premium Food Experiences, Understanding the Consumer Redefinition of Quality*, 2007, Bellevue in association with The Hartman Group Inc. A Tinderbox Study
5. *Consumer Survey, August 2008,* Datamonitor
6. *Eating Patterns in Canada Report, 11th Annual Edition*, November 2008, NPD Group
7. *Consumer Survey, National Farmer’s Market Impact Study, 2009*

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