Consumers Demand Value from Natural Manufacturers

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As the recessionary environment of the past year continues to exact a toll on all types of consumer spending, consumers are doing without, trading down and demanding more value for their dollars. The Gallup poll reported on October 6, 2009 demonstrates this cycle; it revealed yet another tumble in consumer confidence, while also verifying consumer spending is down 30 percent from the same period a year ago. Layoffs continue to hurt the job market and fears about the economy are depressing consumer spending overall. Gallup now describes this lower level of consumer spending as "the new normal."[i]

At the same time numerous studies and surveys have reported ongoing interest by consumers in products related to health and wellness, and sustainability. For example, the Natural Marketing Institute reports in their Lifestyles of Health and Sustainability (LOHAS) Consumer Trends Database for 2009 that consumer interest in product benefits and attributes related to health and sustainability is trending up while conventional attributes and purchase drivers are trending down. This was true for food and beverage categories as well as for cleaning products and personal care. [ii]

Singerman and Olson's recent SPINS article on Fair Trade products, which reviewed actual purchase data for Fair Trade categories for the 52 week period ending 8/8/09, came to the same conclusion. Fair Trade products have been thriving in spite of the recession.[iii] Packaged Facts reports a similar finding for what they term 'ethical grocery products,' including products that fulfill eco-friendly, natural, organic, local, humane and fair trade criteria. Demand for these products has been shown to be steadily increasing and they "are continuing to make headway in the market, especially when contrasted with the relatively flat market for conventional groceries." Packaged Facts goes on to state that underneath this robust showing is "ongoing strong consumer demand for products perceived to be healthier and safer."[iv]

Products linked to health, wellness and sustainability are the traditional calling cards of manufacturers in the natural and organic industry. Packaged Facts' ethical grocery attributes are a good description of the market niche built by pioneering companies in the natural channel over many years of effort. Surveys and research reports like the ones cited above imply that consumers ought to be strongly pushing up sales for natural and organic products at this time, similar to the pattern seen during other recessions and economic downturns over the past 20 years.

Actual sales results during the recession show a mixed picture, however, as some product categories have struggled to maintain sales dollars and many have seen unit sales shrink in the past year. Focusing on sales through Natural Products Supermarkets we have seen channel shifting, conventional private label, consumer couponing and downscaling all having an impact on sales results for 2008-2009.

It must be noted however, that the picture is not uniform across all manufacturers and all product types. Categories and sub-categories show a range of results for dollar sales and unit growth. Detailed information about growth by category is available from SPINS, a market research and consulting firm for the Natural Products Industry. SPINS reports retail sales data for UPC-coded natural and organic products sold through natural product supermarkets and conventional food, drug and mass merchandisers (FDM).

SPINS' sales data clearly shows that the impact of the downturn has not been spread equally over all product groups (see Table 1). Some categories, or product attributes such as Fair Trade, bucked the trend and have continued to perform well throughout the recession, even as others experienced a decline. For example, the category of Shelf Stable Pasta showed unit growth of over 6.1 percent in the natural channel for the 52 week period ended 7/11/09, while in contrast the Soup category showed a decline in units of -5.6 percent for the same period.

Table 1
Natural Channel Supermarkets, UPC coded products
52 weeks ended 7.11.09

Group	Current Dollars (millions)	Dollar Change (vs. Year Ago, millions)	Dollar % Change (vs. Year Ago)	Current Units (millions)	Unit Change (vs. Year Ago, millions)	Unit % Change (vs. Year Ago)
TOTAL (ALL LISTED PRODUCT GROUPS)	$4,244.5	$218.1	5.4%	1050.2	0.2	0.0%
GROCERY	$1,413.8	$81.5	6.1%	496.3	-6.7	-1.3%
VITAMINS & SUPPLEMENTS	$717.9	$23.1	3.3%	48.9	-0.2	-0.3%
REFRIGERATED	$630.6	$46.6	8.0%	210.9	5.0	2.4%
FROZEN & REFRIGERATED	$566.6	$41.7	7.9%	142.1	0.4	0.3%
BODY CARE	$277.5	-$2.1	-0.8%	39.4	-1.5	-3.6%
HERBS & HOMEOPATHIC	$210.2	$1.2	0.6%	17.2	-0.5	-2.9%
GENERAL MERCHANDISE	$157.5	$5.0	3.3%	35.7	-0.8	-2.1%
ALCOHOL	$149.0	$10.4	7.5%	20.9	1.1	5.6%
PRODUCE - PACKAGED	$118.9	$10.7	9.9%	38.4	3.3	9.4%
OVER-THE-COUNTER (OTC) MEDICINES	$2.6	-$0.1	-3.9%	0.4	0.0	-1.6%

Looking at the range of results in category performance, we wondered whether there were differences in how various manufacturers managed through the economic downturn, which might account for some of the variability, and whether there were strategies and approaches that had proven more effective in meeting consumer demand for value at this time. In addition to sales dollars and units sold, SPINS tracks a variety of measures concerning price and promotional activity. Using a combination of these measures over a range of 80 grocery categories sold in Natural Product Supermarkets for the 52 week period ended 7/11/09, we looked for patterns that were successful in meeting the challenges posed by the current economic downturn.

In order to control for the impact of new distribution, we used unit sales per point of distribution as our indicator (cumulative unit volume for the category, divided by cumulative points of distribution for the category). Consumer purchasing data across the categories gave insight into a number of related issues: 1) how manufacturers managed the demand for value with price strategies and promotional activity, 2) how consumers responded to increases in base price and category promotional activity and finally 3) which pricing and promotional strategies were successful in growing sales.

Generally speaking, we found that consumers were indeed seeking value. They responded positively to categories with the smallest base price increases, combined with the largest increases in promotional activity (see Table 2).

Table 2
Natural Channel Supermarkets, UPC coded products
52 weeks ended 7.11.09

Category group[v]	Change in Unit Sales Per Point of Distribution	Percentage Change in Base Price	Percentage Change in Promotional Exposure
Top performers	+5.5%	+3.4%	+19.2%
Above average	+2.2%	+6.7%	+17.9%
Average	+0.5%	+6.6%	+17.2%
Below average	-1.7%	+6.7%	+16.9%
Bottom performers	-6.7%	+9.1%	+13.2%

The data summarized in Table 2 is an indication of how successful manufacturers have coped with the current downturn. Apparently when tough economic times hit, the tough get going. Manufacturers that held down base price increases while accelerating promotional activity tended to gain ground. The rewards of continued unit growth, increases in market share and potential gains in consumer goodwill appear to have outweighed the downside risks for the companies in the top quintile of our data.

In the face of an uncertain economy, consumers are demanding value and saving money wherever possible. Manufacturers that recognize this as a cost of doing business in today's economic climate have a better chance of emerging from the recession ahead of the curve.

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[i] http://www.gallup.com/poll/123476/Gallup-Economic-Weekly-Consumer-Confidence-Tumbles.aspx Accessed 10.06.09

[ii] Natural Marketing Institute, "Interest in green product attributes rises while conventional attributes trend down," Tidbits from NMI's Latest 2009 LOHAS Research, email correspondence 10.06.09

[iii] Singerman, K. Jesse, and Olson, Tony, "Sustained Demand for Fair Trade Products in Economic Downturn," http://www.spins.com/assets/pdf/Fair_Trade_10.09.pdf, Accessed 10.06.09

[iv] Packaged Facts, "Despite Recession, the Market for "Ethical" Consumer Products Remains Healthy," http://www.packagedfacts.com/Ethical-Consumer-Update-1939948/ Accessed 10.07.09

[v] 80 categories were grouped into quintiles based on change in unit sales per point of distribution