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Major Consumer Trends Affecting The U.S. Food System

by Benjamin Senauer

INTRODUCTORY economic courses remind us that the quantities of products produced and sold and the prices of those transactions are determined by supply and demand. However, too often there is a tendency for farm oriented people to ignore dramatic changes that affect demands for farm products. The changes take innumerable variations. In some cases they are simply changes in the demands for the basic commodity. More often the changes call for adjustments in the quality of the farm products, and the farm operation in which the commodities are produced.

Retailers, distributors, and processors are the first to be buffeted by changes in consumer demands. But in many cases these consumer-driven changes work their way through the food system back to the farmer. Consumers are increasingly asking that the food industry convert farm products not just into food products, but into actual ready made meals. In turn, processors want uniform products of dependable quality for their production processes. To meet the demands of consumers, distributors and processors will do more specification buying of animals and other products and more production will also be done under contract with producers.

McDonald's, for example, requires that their potato suppliers meet strict size and moisture standards, or face reduced incentive payments. Similarly, major poultry processors subcontract the rearing of their chickens with producers. They provide the chicks and feed, oversee the rearing, and the farmer receives something almost like a salary. Because of these changing consumer demands, farmers will probably be giving up more of their independence in exchange for the greater security of contracts. These developments can be traced at least partially to changes in consumer demands and how industry tries to meet them.

Even those engaged in the production of basic commodities, such as grain, cannot afford to ignore the consumer-driven preferences of agribusiness. Agriculture needs to shift from an approach of raising what grows best or has the most government perks, to producing what sells best. Oat products, for example, and particularly oat bran, are now riding the crest of a health food fad and consumption of oat products is rapidly increasing. However, U.S. production of oats has languished and food manufacturers have had to turn to imports. Opportunities for at least some farmers develop when at least some consumers want organic products raised without pesticides or chemical fertilizers, and are willing to pay a premium for the product.

➢ The U.S. population is aging, growing more slowly, residing in smaller households, moving regionally, and the ethnic mix is shifting. More women are in the labor force, eating patterns are shifting, and food safety and health concerns are increasing. These trends are having a dramatic effect on consumers' food demands, with major implications for food retailers, distributors, processors, and ultimately, farmers.

Changes in consumer demands extend to an insistence that consumers have a say about food and agricultural policy especially as it relates to the perceived availability of safe and healthful food. Thus, there is the challenge for producers to find those areas in which there is a mutual interest in providing a safe, nutritious, high quality food supply.

There are four major consumer trends that promise to continue to have major impacts on the entire food system in the coming decade. They relate to:

- Demographic Changes
- Working Women
- Eating Patterns
- Safety and Health Concerns

These and other forces are driving substantial changes in (1) food retailing and (2) the processing, packaging and advertising of food, which in turn impact on agricultural producers.

Demographic Changes

The basic factor with the most obvious significance for food demand is the declining growth rate of the population. Within the next 50 years (by 2040) the U.S. population growth rate will actually become negative and the number of people will start to decline under the Census Bureau's most likely scenario.

The population is also growing older, living longer, residing in smaller households, and gravitating to selected regions of the country. And, the ethnic mix is changing. By the year 2000, the median age of the population will increase from 31.8 in 1986 to 36.

Also within the next 50 years, the number of people 65 years of age and older is projected to more than double going from 30 million to 68 million in 2040. In response to the aging of Americans the fast food industry is targeting more advertising toward adults and families, rather than teenagers who are a declining proportion of the population. And all segments of the system are being affected by the increased demands of older consumers for better nutri-

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tion and special health needs, such as low-sodium and low-fat foods.

The average household was down to 2.66 members in 1987, from 3.33 in 1960. Singles living alone, composed primarily of two distinctly different groups, the young and the elderly, now account for about one-quarter of U.S. households. Over half of all households are composed of only one or two persons. Given these changes it should not surprise anyone that there is an increasing demand for food products in smaller packaging units. Singles and smaller size families also consume more food away from home.

By the year 2000, 6 out of 10 Americans will live in the Sunbelt. About half of the population growth between now and the year 2000 will occur in just three states: California, Texas and Florida. Typically, when people move, they shed some of their old food habits and acquire some new ones thus accounting at least partially for the increased consumption of Mexican and Southern-style food.

The ethnic mix of the U.S. population is also changing due to differential birth rates and immigration. The fastest growing ethnic groups are Hispanics and Asians. There are now 19 million Hispanics in the United States. By the year 2000 the number will be 30 million. The largest group, about 12 million, are of Mexican origin, which is obviously another major factor in the increased demand for Mexican food products.

Increasingly, food companies are challenged to target their products for particular segments of the market because consumers have become heterogeneous with distinctly different food consumption habits. The market is breaking up along regional and demographic lines. In the 1950s, the great middle class defined the American mass market. The stereotypical U.S. family consisted of a working father, a mother who was a full-time homemaker, and at least two children. Today that stereotypical family represents only 11 percent of all households.

Thus, food companies must learn to target consumers in ever smaller market niches. With access to computerized supermarket sales data, companies are learning much more about the market for their products and how it varies geographically. One implication of these developments is that in the future, a greater share of the marketing budgets will likely go to local promotions rather than to national advertising.

Many food companies now categorize consumers into various lifestyle groups and market their products accordingly. Pillsbury has divided food consumers into five lifestyle categories: the "Chase and Grabbits," 26 percent of consumers; the "Functional Feeders," 18 percent; the "Down Home Stokers," 21 percent; the "Careful Cooks," 20 percent, and the "Happy Cookers," 15 percent. The Chase and Grabbits are yuppies, young urban singles and married couples without children. They are willing to try new and different foods, and they want convenience, but not necessarily convenience foods. Functional Feeders are typically older and the husband works in a blue-collar, union job. They are interested in preparing traditional meals in more convenient ways.

Down Home Stokers eat traditional regional and ethnic foods and generally have lower incomes. Careful Cooks are better educated, older, frequently retired, and have higher incomes. They try to eat a healthy, nutritious diet, but still want to enjoy their food. Happy Cookers are households that contain a wife or, in some cases, a husband who enjoys cooking and baking, such as homemade pies and cakes. They want to buy basic ingredients and nutritious products such as fresh fruits and vegetables. The Chase and Grabbits and Careful Cooks—notably higher income, better educated and more selective groups—are growing market segments.

Numerous lifestyle profiles have been developed by various food market researchers. Many overlap significantly in their categories, even though the specific titles differ. Almost all seem to have catchy names for their various categories of food consumers. People in the food marketing business seem to make greater use of such lifestyle categories when targeting the promotion of their products than they do of such economic concepts as price and income elasticities. But obviously price and income elasticities are the essence of the conditions which they observe.

Working Women and Convenience

One of the major social and economic trends of the last quarter century has been the increased labor force participation of women. Women in the labor force jumped from 35 percent in 1960 to 55 percent in 1987. For married women 35-44 years old, it doubled from 36 percent to 72 percent during the same period.

Because of this development and the related incomes, people increasingly are willing to pay more for convenience as well as quality. People want to cook less and less. One survey found that while half of all women do not like to cook every day, and three-quarters want to get the cooking over as quickly as possible, women still do over 90 percent of the cooking in American families.

The time crunch associated with more women working outside of their homes has spawned an enormous and growing convenience-oriented industry. Time-pressured consumers do not want to buy ingredients for preparing meals; they want to buy meals. Much of the time, they do not even want to take the time to eat in a sit-down restaurant. There is a growing demand for meals that go from the freezer to the microwave to the table and into the trash in the same container, with virtually no cooking or clean-up. Some 75 percent of households in the United States now own a microwave oven. In addition, over 60 percent of those employed have access to a microwave at their place of work. As a result, supermarkets are being flooded with products designed for the microwave.

Over half of U.S. women are in the labor market.

Eating Patterns

For many Americans, a typical breakfast is a muffin and a glass of orange juice eaten hurrying through the kitchen in the morning. Lunch is a cheeseburger and fries picked up in the drive-through lane at the fast food outlet. Dinner may be a home-delivered pizza or some things picked up at the deli counter in the supermarket. Then, as a reward for making it through a tough day, they have a big bowl of premium ice cream while watching television at night. This behavior reflects Pillsbury's Chase and Grabbit group, the most rapidly growing category.

Fewer and fewer consumers are actually sitting down and eating the traditional three square meals a day. In a nationwide survey, only 50 percent of adults said they ate three regular meals a day.

Agriculture needs to shift from raising what grows best or has the most government perks, to producing what sells best.

The term "grazing" has been coined to describe the continuous snacking or frequent, light eating behavior of a growing portion of the population. Fast food chains want their products to be finger foods that can be eaten with one hand on the steering wheel. Family sit-down meals are becoming the exception, not the rule, in many households. Some 41 percent of the households surveyed in one study said family members usually do not eat dinner together, although that is the meal most likely to be eaten together.

Increasingly, different members of the same family eat quite different things. In the past, the wife and mother was a kind of gatekeeper making crucial decisions about the food and diet of the entire family. More and more the individual is the key decision maker, even in the case of children. Consequently, more convenience foods are being designed with the individual eater in mind. The increased prevalence of single-serving size containers reflects not just single-person households, but also individual-oriented eating.

Human behavior is frequently contradictory, and peoples' eating patterns are no exception. Some, for example, carefully monitor the calorie and fat content of their main dishes, eating salads and lean entrees, and then splurge with a super rich dessert. Food is more than a nutritional necessity for most people. Food can also be a pleasure, a cultural and social medium, a comfort, and a reward.

Three of every four of U.S. households own a micro wave oven.

Concerns for Food Safety and Health

In a 1989 survey conducted for the Food Marketing Institute (FMI), 82 percent of the consumer respondents rated pesticide and herbicide residues as a serious health hazard. Sixty-one percent said they felt antibiotics and hormones in poultry and livestock feed were a serious hazard. However, in the same 1989 survey of supermarket shoppers, 81 percent indicated they were completely or mostly confident that the food in grocery stores is safe.

Under the glare of intense media attention, specific consumer food safety concerns can erupt into widespread alarm. An example is the recent uproar over the chemical daminozide, sold under the brand-name Alar and used on apples. Although there is no clear scientific consensus on the health risk posed by Alar, the public reacted strongly. The concern focused particularly on children who are heavy consumers of apple products. To avoid these kind of disasters for both farmers and the food system, the federal government and the food industry both need to be sensitive to the public's need for adequate and accurate information about the safety of food and thereby actively work to maintain consumer confidence in the food system.

The major nutritional concerns in the United States have largely shifted from a focus on diseases related to nutrient deficiencies to a focus on the linkages between diet and the major chronic diseases. Widespread nutritional problems today are related to over consumption, rather than to a shortage of certain nutrients. In general, the typical American's diet contains too much fat, particularly saturated fat, and in many cases, too many calories. The average diet contains too few fruits, vegetables and the complex carbohydrates found in whole grain products. Medical evidence increasingly links the three major causes of death—heart disease, cancer and stroke—to diet and related lifestyle factors.

The message seems to be getting through to more and more consumers. The average American consumes 37 percent of his/her calories in the form of fat, down from 40 percent in 1977. The average per capita consumption of some products high in saturated fats, such as animal shortening, butter, and whole milk is down. However, we still have a long way to go to meet the dietary recommendation, of reducing the fat content of our diet to 30 percent.

Food Retailing Changes

The food retailing industry has changed dramatically in response to these consumer trends. The two fastest growing market segments are at the upscale and discount ends of the grocery business. Consumers want either to buy the best or the best buy.

Within the stores themselves, supermarkets are stocking more convenience and take-out foods and are giving more space and attention to the fresh produce section. Many stores are moving towards one-stop shopping, with an in-store bakery, deli, florist, dry cleaner, and even a post office. Grocers are going after a larger share of the food service business, to an increasing extent becoming meal retailers. In addition, computerized scanner technology is

giving grocers much better information about the sales performance of specific items.

The most uniquely American part of the food service industry is fast food, for which consumers spent $56 billion in 1987. Some 130,000 fast food outlets dot the United States. The rate of sales growth for the fast food industry, however, has fallen from its double-digit rate to around 8 percent per year more recently. As the market is becoming saturated, the level of competition is intensifying.

Perhaps the most dynamic area of food retailing is in take-out and meal delivery. This fast growing segment includes super market deli-counter sales, pizza home delivery and take-out, fast food drive-through, and restaurant carry-out meals. By 1987, take-out and delivery sales were over $6O billion. A Food Marketing Institute (FMI) survey found that 81 percent of all households buy take-out food at least once a month.

Attributes, Packaging, Advertising and Brands

In 1988, over 10,000 new food products were introduced. Such run-away product proliferation means the competition for supermarket shelf space is intense and that only a small percentage of the new products will succeed.

The demand model developed by Kevin Lancaster, Columbia University, suggests that consumers view products as bundles of attributes or characteristics. There are many examples of product line extensions in which the new products differ by only a few or even a single characteristic. Food scientists are increasingly being asked to develop products with a certain combination of characteristics. The considerable power of food technology to create products is certainly evident in something like surimi, in which inexpensive fish is transformed into high-value seafood facsimiles, such as crab legs and lobster tails.

Our concept of a food product should be expanded to include characteristics attributable to the product's packaging and advertising. Nearly ten cents of every dollar spent for food and beverages is for packaging. The food products purchased in 1986 were sold in $28 billion worth of packaging. The food package's appearance may be as important as its content or its price in the consumer's decision. With foods designed for the microwave, the package is actually becoming a cooking utensil. The downside of all this packaging is that each American discards an average of 1,100 pounds of waste per year. About two-fifths of the waste is packaging, much of it from food products. Many states are feeling the landfill crunch and some predict that as many as one-third could have serious space problems in the next few years.

Food industry expenditures on advertising and promotion are enormous. Total food-related advertising reached $10 billion in 1987. Through advertising, companies try to create a certain impression or perception of their product, and differentiate their product from competitor products. The impact of advertising has strengthened the importance of brands. Much of the recent take-over activity in the food industry has been largely motivated by a desire to acquire market leading, brand names.

For More Information

This article draws on the first chapter of a book which Ben Senauer is writing to be titled, *The Consumer-Driven Food Market.* His co-authors are Jean Kinsey, also an agricultural economist, and Elaine Asp, a food scientist. The book will be published by Eagan Press of St. Paul, MN and should be available in early 1991.