



## The “Modern Family” and Its Impact on Food and Beverage Consumption

The traditional nuclear family, once the coveted target of consumer packaged goods (CPG) companies and retailers alike, is fast becoming a relic of our nation’s past. As the baby-boom generation marches into retirement, replaced by a massive wave of millennials, what constitutes a family — or household — looks very different from how it looked a few decades ago.

For starters, household size in the U.S. is shrinking, as marriage rates drop, couples put off having children and birth rates slow (see Figure 1). In fact, single- and two-person households are expected to account for 80% of household growth through 2020. America is becoming increasingly multicultural; Hispanic, Asian and multiracial families will account for 54% of growth between 2014 and 2020. As a nation, we are living longer, and seniors make up a growing portion of the population. We are also seeing major changes in the size of the American middle class, long the engine of U.S. purchasing power. Over the past several decades, the middle class has shrunk, as more households move into adjacent upper- and lower-income brackets, leading to what has been labeled an “hourglass economy.”

These shifts in household size and income, coupled with changing work and lifestyles, have dramatically affected consumer food purchasing behavior, with important implications for new product development and channel strategies.

Catering to millennials needs to be central to any food and beverage (F&B) company strategy. Millennials are already the largest living generation and are projected to hold that position through 2022. By 2020, they will constitute fully half the workforce and will be responsible for 40% of U.S. discretionary spending (see Figure 2). Already they are having an outside impact, influencing many of the recent trends in food purchasing and consumption.

### Changing consumption trends

The rapidly changing demographics in this country are playing havoc with how, what and where we consume, and the F&B industry is no exception. Following are some of the most important trends we are seeing in the F&B arena:

**Premium and value are seeing spikes in popularity.** Traditional supermarkets are struggling, while sales at clubs, mass merchandisers and discounters on the one hand and specialty food stores on the other are on a stronger growth trajectory — both trends are a direct result of the hourglass economy with its slimmed-down middle class and increased upper- and lower-income brackets. A case in point: From 2000 to 2014, the revenue of premium grocery chain Whole Foods Market grew an average of 16% a year; likewise, value retailer Dollar General saw its revenues increase at an annual rate of around 11% (see Figure 3). There is a similar dichotomy in food products themselves. Consumers are snapping up private-label brands and value-priced items. At the same time, premium brands with hefty price tags are also thriving.

*The “Modern Family” and Its Impact on Food and Beverage Consumption* was written by **Manny Picciola** and **Rob Wilson**, Managing Directors in L.E.K. Consulting’s Consumer Products practice.

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Figure 1  
The Altered Face of US Households, 1980-2014

	1980	2014	Change	Drivers / Implications
One- and two-person households	43M	76M	+77%	Smaller households are increasingly important
All other households	36M	47M	+31%	
Birth rate per 1,000 people	15.9	12.7	-20%	Families are getting smaller
Births outside of marriage per 100 births	19	41	+116%	
Marriage rate (per 1,000 persons)	10.6	6.9	-35%	
Average number of own children under 18 per family	1.0	.8	-20%	
Average age of a woman at childbirth	23 years	27 years	+17%	Population is increasingly diverse
White population	180M	116M	-36%	
Non-white population	46M	198M	+330%	
Life expectancy	74 years	79 years	+7%	Seniors are increasingly important
Adults in middle-income households	60%	50%	-10%	Hourglass economy: a shrinking middle class with growth in the upper and lower income classes

Sources: Euromonitor, U.S. Census Bureau, L.E.K. analysis

**Grab-and-go leads the way, with food everywhere.** Lifestyles are changing, especially among millennials. For example, many are saying no to car ownership, relying on public transportation or car services instead: Only 77% of consumers ages 20 to 24 own a car, down from 92% in 1983. As a result, convenience often determines purchase venue. For example, 23 of the top 30 largest convenience store operators have increased their store count in the past five years. Food trucks are exploding in urban areas, online delivery services are thriving, meal kit companies are proliferating, and in April 2015, foodservice spending away from home surpassed retail spending, as an increasing number of consumers opt to eat out. Retail grocers are responding by investing in the perimeter. In 2015, fresh chilled prepared foods reached approximately \$11 billion and grew 10% year over year.<sup>1</sup>

**More irregular lifestyles and work schedules have given rise to 24/7 eating.** Whether it is a greater number of people taking a second job to make ends meet, the rise in freelancers with flexible hours or an increase in nightlife, more consumers are looking for food options late into the evening and early morning. Fast-food companies have seized the opportunity. According to McDonald's, the hours between midnight and 5 a.m. are its fastest-growing time segment. Burger King requires its U.S. restaurants to stay open until midnight on Fridays and Saturdays and until 11 p.m. on all other days; the chain also has several hundred restaurants open 24 hours.

**Snacking has reached new heights.** We have become a generation of grazers. Some 94% of Americans report snacking at least once per day, and the frequency of snacking is on the rise. Since 2010, snacking has increased for every time of day, and the average number of snacks consumed daily has grown by about 17% to 2.6 snacks a day. Not all snacking is unhealthy; in fact,

natural snacks increased 12.5% between 2013 and 2014. One telling example: Orville Redenbacher's line of low-fat popcorn "SmartPop!" increased from about \$1 million in U.S. sales in 2011 to \$250 million in 2015.<sup>2</sup>

**Ethnic food is having a heyday. Where once there may have been one hot sauce next to the ketchup in the food aisles, today there are dozens.** Ethnic foods are one of the fastest-growing F&B categories. This is due to a combination of the country's increasing multicultural population and millennials' desire to experiment with new foods. Within ethnic food, the Hispanic segment is the largest and fastest-growing, driven primarily by the country's rapidly increasing Hispanic population.

### Strategies for success

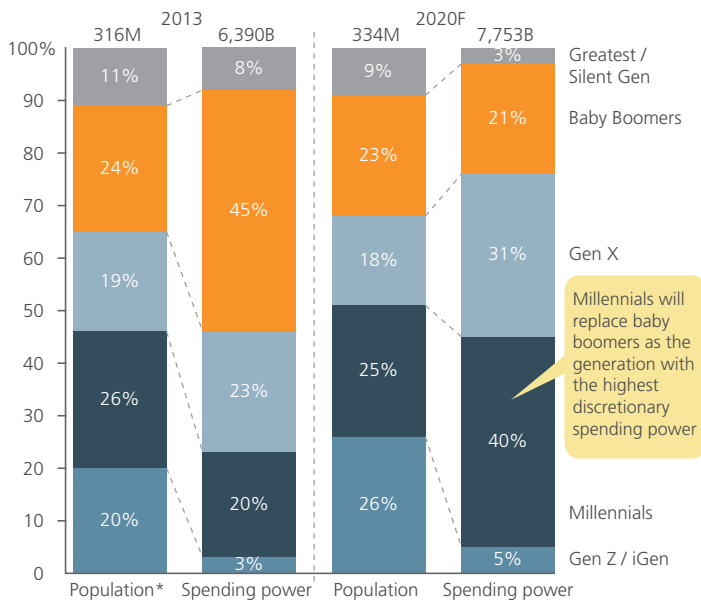
To succeed in a shifting market, F&B companies should consider the following strategies:

**Adapt to smaller household size.** The shrinking trajectory of the modern household is unlikely to reverse direction anytime soon. Many F&B companies have jumped on the single-serve bandwagon, but meals for two represent an under-penetrated opportunity. To accommodate the value pricing desired by millennials, many of whom shop at clubs such as Costco, offering multipacks of single- or double-serve items addresses an unmet need. Sophisticated manufacturers and retailers are using consumer-driven insights to determine the best combination of product attributes, packaging and price. Through price pack architecture (PPA) strategies, companies can identify optimal products by testing various product and packaging attributes with consumers. A well-executed PPA strategy can reinvigorate categories that were previously stagnant and make them profitable.

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Figure 2

U.S. Discretionary Spending Power by Generation (2013, 2020F)  
By 2020, millennials will account for 40% of U.S. discretionary spending



Notes: \*Years born = Greatest / Silent Gen (before 1946), Baby Boomers (1946-1964), Gen X (1964-1981), Millennials (1982-2000), Gen Z / iGen (after 2000)  
Sources: U.S. Census, Technomic, Deloitte Millennial Survey 2014, Nielsen, L.E.K. analysis

**Capitalize on convenience.** Time is at a premium for most consumers today, with many working longer hours and fewer opting to be full-time homemakers. F&B manufacturers may want to consider increasing their offerings of snack foods or prepackaged, ready-to-cook dishes. Expanding the distribution channels through which they offer their products — for example into convenience stores — will also get their offerings into the mouths of more consumers. For retailers, extending hours and devoting square footage to prepared foods or even in-store restaurants are convenience-oriented strategies.

**Make digital meaningful.** Millennials and the generations coming behind them live on their mobile devices. F&B companies today need to engage these consumers with creative and interactive digital strategies, whether this involves online delivery, subscription services, mobile coupons, sweepstakes and special offers for “fans,” or use of personalization strategies. As the buying power of these consumers increases, the bar for innovative digital approaches will rise even higher.

**Embrace bolder flavors.** As the nation’s population becomes increasingly multicultural, F&B companies can no longer succeed with a “one taste fits all” strategy. Offering products aimed at different ethnic groups is one strategy for accommodating the newfound diversity. Another is creating line extensions — particularly in the snack food arena — that cater to millennials’ penchant for experimentation and adventurous approach to novel tastes and textures. One only need look at the proliferation of new flavor profiles (e.g., jalapeno-flavored bacon) and the increase in flavor enhancers in foods to realize that this is a trend that offers significant growth potential.

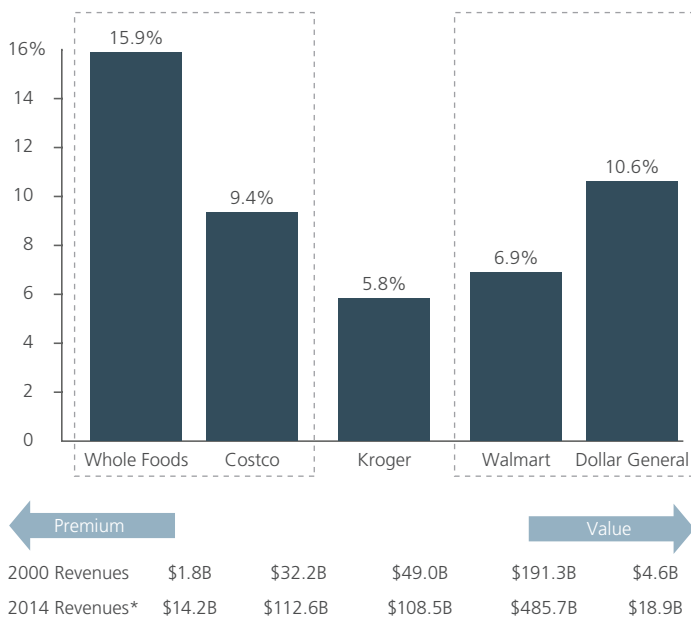
**Don’t count out seniors.** Important as millennials are to companies’ bottom lines, the baby boomers now moving into their retirement years remain a formidable demographic — and they are expected to live longer than previous generations. Many seniors face a decrease in discretionary income, presenting an opportunity for value-oriented products and distribution channels. Winning with seniors could include offering products with a focus on health and wellness or that come in specially designed, easy-to-open packaging. On the retail side, restaurants might offer senior discounts at earlier hours, or stores might provide delivery or other services for senior citizens.

## Conclusion

The competitive landscape for F&B companies is far more complex than it was a mere decade or so ago. The demographic, economic and societal shifts that have changed the face of the American family have created an obstacle course of tastes, preferences, behaviors and expectations that companies will need to deftly navigate in order to survive. Understanding these shifts and how to leverage them for competitive advantage are the keys to success in this oft-confusing new world.

Figure 3

Compounded Annual Growth Rates of Premium and Value-based Stores’ Sales (2000-2014)  
Stores at either end of the consumer spectrum have grown at faster rates than traditional supermarkets



Notes: \*2014 fiscal year-end dates: WFM: 9/30/14; COST: 8/31/14; KR: 1/31/15; WMT: 1/31/15; DG: 1/30/15  
Sources: Retailing Today Insights, Yahoo Finance, L.E.K. analysis

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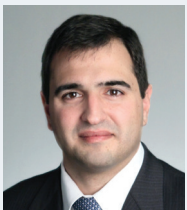
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<sup>1</sup>Food Monitoring Institute (FMI); IRI

<sup>2</sup>Euromonitor

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## About the Authors



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