Capitalizing on Opportunities in Fresh Prepared Foods

With the increased focus on investing in the perimeter of the grocery store, fresh prepared foods is one of the most interesting growth areas for U.S. grocers. The lines of retail and foodservice have been blurring as grocers realize there is a golden opportunity to capitalize on consumers' desire for fresh prepared foods and drive foot traffic.

This *Executive Insights* profiles the high-growth category of fresh prepared foods and why retailers and suppliers alike can expect to find significant opportunities in this market for years to come.

Capitalizing on Opportunities in Fresh Prepared Foods was prepared by **Rob Wilson**, **Jon Weber** and **Dan McKone**, Managing Directors at L.E.K. Consulting. Rob is based in Chicago and Jon and Dan are based in Boston.

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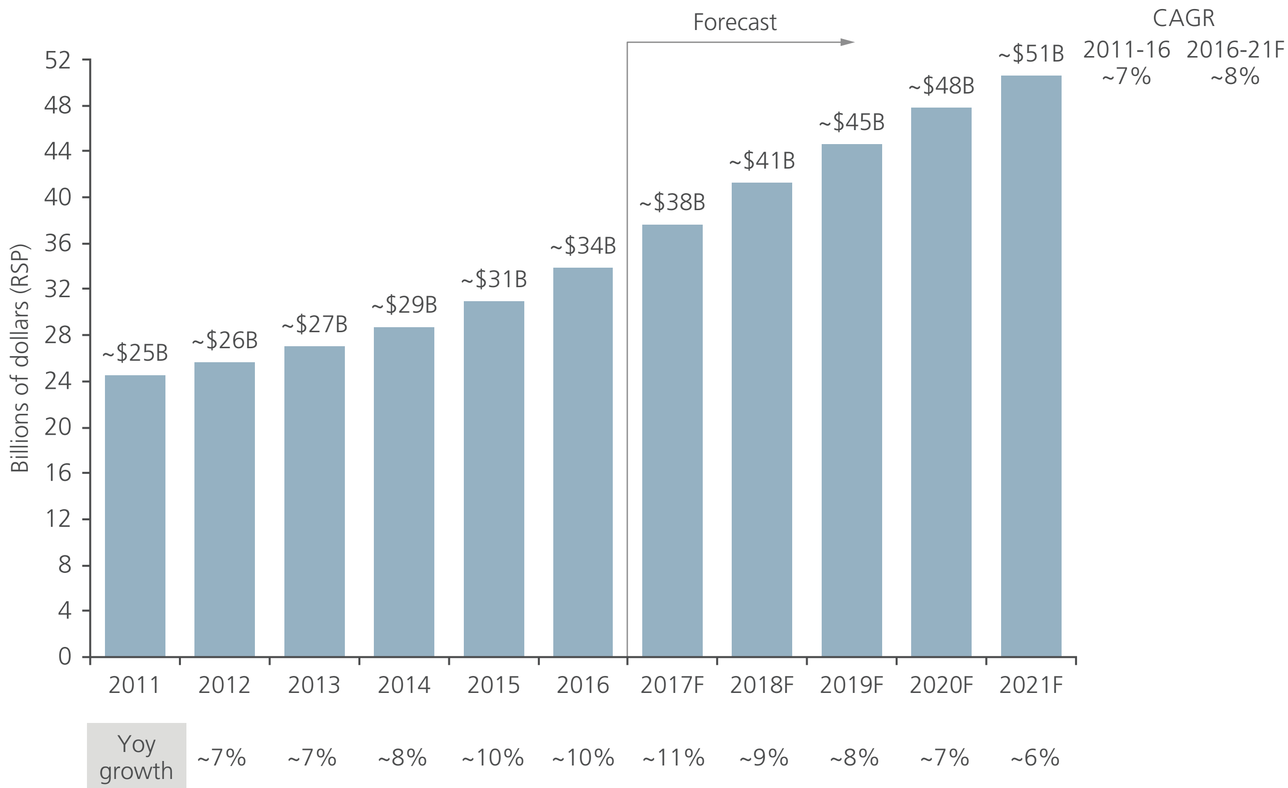
U.S. grocers: increased focus on high-quality fresh prepared foods

Unlike their international counterparts, most U.S. grocers are still learning how to meet consumers' desire for fresh prepared foods.

For example, ask any consumer who's been to London recently: The fresh prepared to-go offerings there are far superior to what can be found in the U.S. Consumers in the U.K. can grab premium wraps, ready-to-eat ethnic meals with interesting flavor profiles, delicious salads and a large variety of other offerings. While there are some good offerings in the U.S., they are limited and inconsistent. The race is on to increase quality at a national scale.

The $34 billion fresh prepared foods market has been experiencing accelerating growth and grew 10% last year, with strong growth expected to continue into the future.

Total U.S. fresh prepared foods market – grocery channel (2011-21F)



Source: L.E.K. analysis

Fresh prepared foods comprises five mega-categories

Prepared meals & center plate

Ready to eat value-added meals

Ready to cook
value-added protein

Rotisserie chicken

Fresh prepared produce

Fresh sliced vegetables

Fresh sliced fruit

Ready to eat
(nonleafy) specialty salads

In-store bakery

Bread
(artisan loaves, focaccia, etc.)

Desserts (in-store bakery)

Decorated sheet cakes

Sides

Chilled and hot bar soups

Chilled dips

Nonspecialty (nonleafy)
deli salads

Other

Chilled sauces

Leafy salad bar

Other sauces, dips,
condiments, etc.

Which trends are contributing to strong growth in the U.S.?

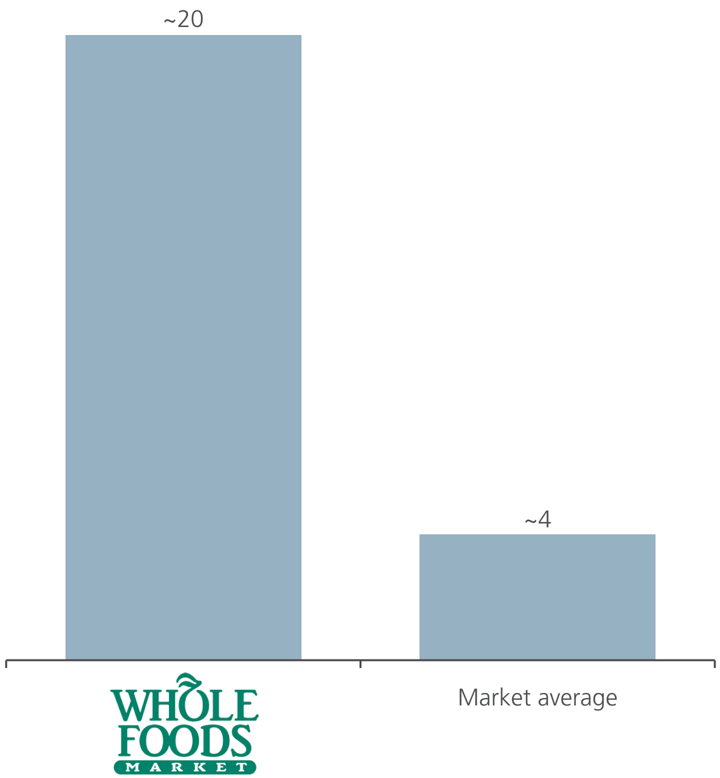
Consumers	
Health and wellness	Consumers are increasingly focused on reading ingredients and searching for clean label and organic/natural products
Convenience needs	"On the go" eating and snacking has become increasingly popular as consumer sentiment as it relates to snacking has dramatically improved since the 1990s
Eating away from home	In April 2015, foodservice spend away from home surpassed spend on food at home and has been outpacing retail growth since 2010
Shopping in store perimeter	Household grocery trips to purchase fresh foods have increased 1.0% YoY vs. a 1.3% decline in overall grocery trips
Grocers	
Farm-to-table local sourcing	In the search for healthier food, specialty and locally sourced "food with a story" suppliers are making inroads against and driving disruption in big CPG
Private label growth	Private label penetration is believed to be ~45-55% of the overall ready-to-eat value-added meals market as retailers can promote "made in-house"
Foodservice "in-store"	Increased desire for ready-to-eat (RTE) options as consumers look for "an experience" in their grocery trips
Nascent supply base	Regional producers (e.g., commissaries) still supply the bulk of fresh prepared foods; food safety remains a concern, with variability in quality and consistency across national chains

Most retailers are underpenetrated in fresh prepared foods

Although "best in class" fresh prepared foods retailers like Whole Foods and Costco lead the way with strong penetration rates, the overall U.S. market averages just roughly 4%.

Conventional retailers have been pushing to catch up to higher penetration rates. More progressive retailers like Trader Joe's and H-E-B have fresh prepared penetration rates around two times the national average, but there is a large segment of grocers that has not yet capitalized on this growth opportunity.

Fresh prepared dollar sales as percentage of total grocery sales (2016)

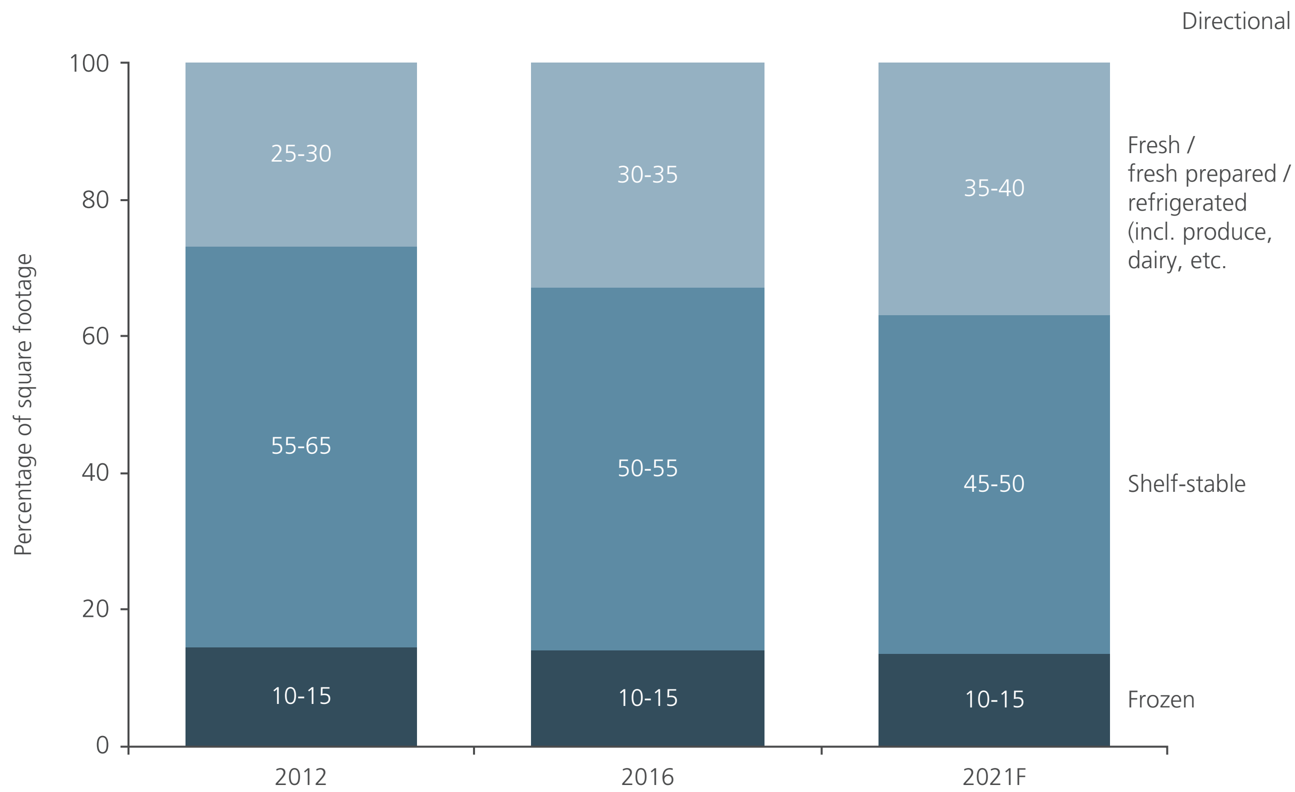


Source: L.E.K. interviews and analysis

Fresh prepared foods expected to continue stealing shelf space

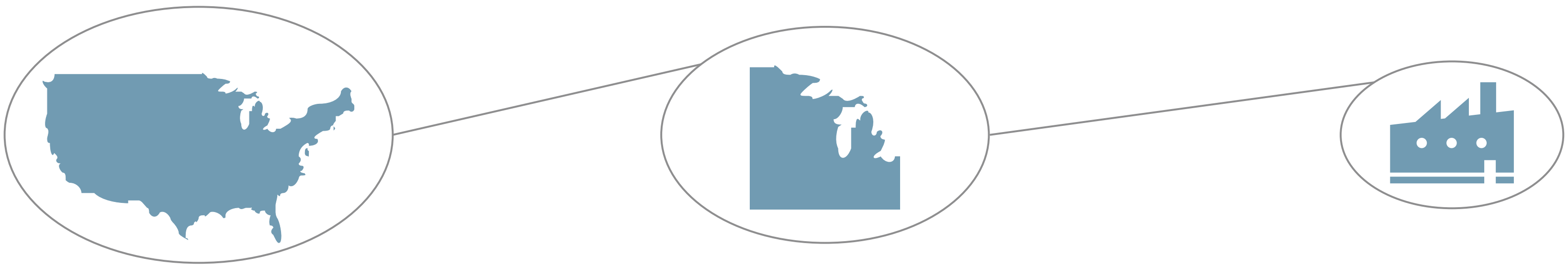
The lines of retail and foodservice have been blurring in the perimeters of stores as consumers seek fresh foods that are grab-and-go or require little preparation at home. By developing the perimeter of the store, there is a golden opportunity to capitalize on consumers' desire for fresh prepared foods and drive food traffic for U.S. grocers compared with international counterparts.

Average shelf space per store by temperature state (2012-21F)



Source: L.E.K. interviews and analysis

Retailers struggle with consistency in a patchwork supply network



National	Regional	Local/in-store
Less common	Most common	More common

Decreasing shelf life

National

- Typically refrigerated, shelf stable or shipped frozen
- Served by companies with national distribution
- More branded products relative to other fresh prepared foods

Regional

- Made regionally/locally
- Often produced by a patchwork of locally based commissaries
- Perceived by consumers to be fresher and of higher quality
- Varied tastes and preferences by region

Local/in-store

- In-store value-added foods (e.g., cooked in-store, premium to-go offerings)
- Typically fresh/extremely perishable products
- Seasonal / rotating flavors

Rapid growth with continued upside opportunities

The U.S. has nascent fresh prepared product offerings compared with the U.K. as retailers are largely underpenetrated

The lines between retail and foodservice have been blurring as consumers demand "made in store" experiences, thus supply chains overlap

There is a current lack of scale in fresh prepared food quality and consistency because the current network is largely a patchwork of commissaries

The opportunity that lies ahead for grocers and suppliers alike is massive, yet many are unaware of it

How will you capitalize on this opportunity?

About the Authors

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