



# Hunger signs

The reshaping of food and beverage consumption

September 2022

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# Introduction

The evolving relationship between humans and food is changing demand and consumption.

When it comes to buying their favorite foods and beverages, consumers know what they want, when and how they want it—even if they don't always think about why.

Getting down to that “why” drives food and beverage companies to continually analyze consumption drivers and impulses, whether it's choosing a low-carb energy bar over candy, or one brand of probiotic beverage over another. Today there are more influences than ever on consumer decisions, making it harder to identify trends early.

KPMG set out to analyze the latest signals reshaping human consumption, using primary research and data analytics to determine what is influencing consumers behind the scenes today, and what's around the corner. We identified six key dimensions, expanded upon in the following pages, that are transforming U.S. consumer demand.

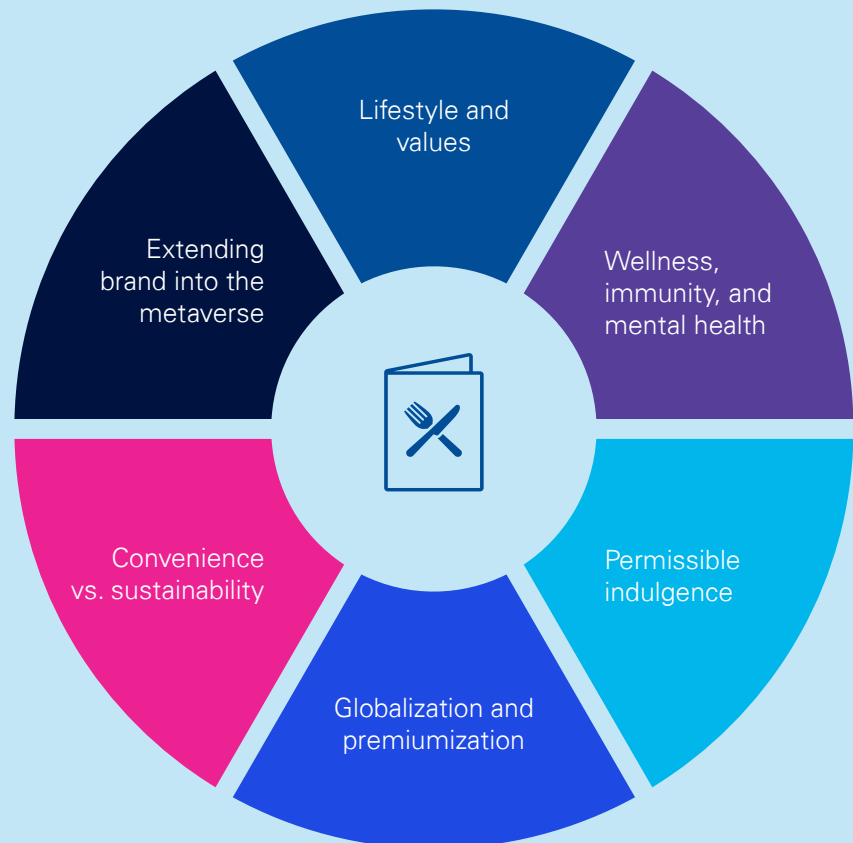
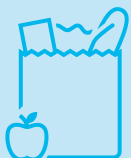
Understanding these six dimensions can offer a pulse on changes in buyer behavior, helping the food and beverage industry better align and manage their product portfolio and R&D investments, target their marketing efforts, and discover opportunities to grab a greater share of the conscious and subliminal minds of today's consumers.



What are you in the mood to eat?



## The six key dimensions of food and beverage consumption today





## The backdrop for U.S. spend and consumption

Before examining the specifics of the food and beverage industry, it's helpful to take a step back and look at several macro influences on U.S. consumers leading up to the here and now.

Digital innovation continues to play an important role in consumer behavior, from how consumers obtain their favorite products to where they hear about new brands. For younger consumers who grew up immersed in technology, digital influences are pervasive in their shopping journeys and decision-making.

Technology-enabled access to real-time information and social sharing has fed the growing demand from consumers and other company stakeholders to be accountable for their environmental, social, and governance (ESG) impact. Attention to ESG intensified during the pandemic as consumers became more thoughtful about what matters most to them, their families, and their communities.

And now that many employees are home to stay for all or part of their work weeks, their behaviors and needs have changed dramatically. Finally, a shorter-term but no less significant factor for U.S. consumers is the economy as inflation feeds purchasing power concerns.

## With these influences in mind, we see five drivers of human decision-making around food and beverage:

**Motivation.** Social consciousness is rising en masse with online media use and coverage of current events. Consumers expect the companies they buy from to abide by ESG principles.

**37%** of U.S. consumers are more likely to purchase packaged food with sustainability claims, up 6 percentage points in three years.<sup>1</sup>

**Attention.** Younger consumers have been digitally connected since infancy, but even older consumers are tech savvy and crave new technologies.

The average age children receive their own cell phone is

**10 years old**.<sup>2</sup>

**Connection.** After spending an increasing amount of time interacting with each other through technology rather than in person over the last decade, humans tipped into a fully virtual social experience during the pandemic.

**3 hours a day** is the average amount of time Gen Z spends on social media.<sup>3</sup>

**Watch.** More free time is being spent using technology rather than in the physical world, and entertainment is largely consumed online.

Consumers average nearly

**8 hours a day** of digital media exposure,

**55%** of which they access via mobile phone.<sup>4</sup>

**Wallet.** Buy now, pay later services, such as Apple Pay Later launched in June 2022,<sup>5</sup> are growing in popularity among consumers who can't or don't want to access credit, particularly in tough economic times.

**38%** of buy now pay later users say these tools will eventually replace their credit cards.<sup>6</sup>

<sup>1</sup> "Research finds more consumers weighing sustainability claims on packaged food choices," Cargill, February 3, 2022.

<sup>2</sup> David Bickham, Elizabeth (Libby) Hunt, Jill R. Kavanaugh, and Michael Rich, "Children's First Cell Phones: Parents' Perspectives on Risks and Benefits," Boston Children's Hospital Digital Wellness Lab, December 17, 2021.

<sup>3</sup> "2022 Global Wellbeing Report," lululemon, February 2022.

<sup>4</sup> Shelagh Dolan, "How mobile users spend their time on their smartphones in 2022," Insider Intelligence, April 14, 2022.

<sup>5</sup> Kyle Wiggers, "Apple Pay Later lets you split up purchases into four payments at no interest," TechCrunch, June 6, 2022.

<sup>6</sup> "Buy Now, Pay Later Statistics And User Habits," C+R Research, 2021

# Lifestyle and values



The pandemic brought personal values into sharp focus for many consumers; now they're applying those values to the food they buy.

## Values-based buying catches on

As they emerged from the pandemic, most consumers reported that their personal values have been clarified or are more intense. Nearly one in three say they are more conscious about their buying decisions, including what they are buying and the motivation behind their decision. Most importantly, 43 percent prefer to buy brands that align with their values.

## Young and idealistic

Younger consumers—particularly those identified as Gen Z born after 1997—are more likely to say they honed their values during the pandemic relative to the oldest generations. They're even more likely to check buying decisions against their values.



Values-based consumption is the notion that consumers use attributes beyond convenience, brand, functionality, and price in deciding what to buy or not to buy. Values-driven consumers buy products and services in keeping with their economic, social, and ecological concerns.



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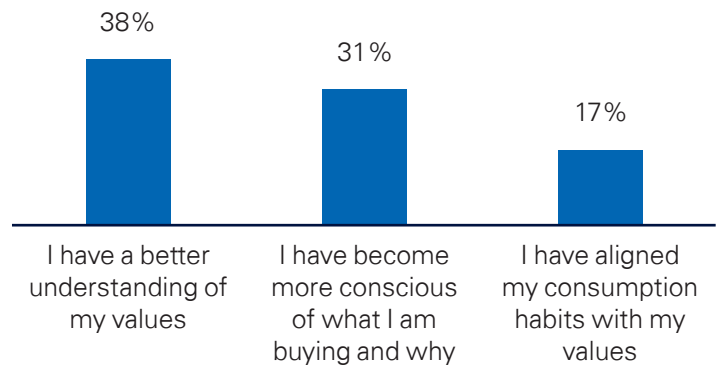


I am a loyal shopper of products from good corporate citizens.



## The pandemic accelerated consumers' focus on their values

How has your relationship with your values changed over the past year?



KPMG Consumer Survey, February 2022

\*Caroline Burns, "Values-Based Consumption," *Encyclopedia of Business and Professional Ethics*. (October 2017)

All data on page is from the KPMG Consumer Survey, February 2022

# Wellness, immunity, and mental health



More people are exploring the mind/body/food connection.

## Healthy eating is here to stay

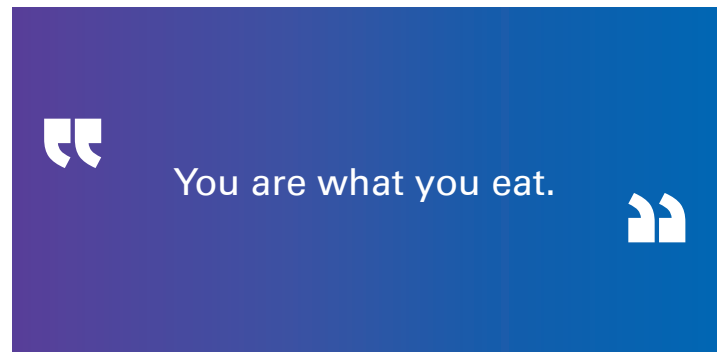
In the darkest days of the COVID-19 shutdowns, many sought a sense of control amid bare grocery store shelves and overflowing emergency rooms. That time left many with lasting impressions and new habits and beliefs. Among them was a wider understanding of how nutrition can impact a body's ability to fight infection and disease, as well as support mental stability and health. Working remotely, many had more time to plan and cook healthier meals, and home essentially became a sanctuary.

More than half of all U.S. consumers surveyed say their interest in eating healthy foods has increased over the year. Stuck in their houses and apartments, people started cooking and eating at home, and retail food sales reached unprecedented levels.

The younger the consumer, the greater the change in eating habits. Millennial and Gen Z consumers were more likely to say they had increased their focus on healthy eating over the year than Gen X and baby boomers.

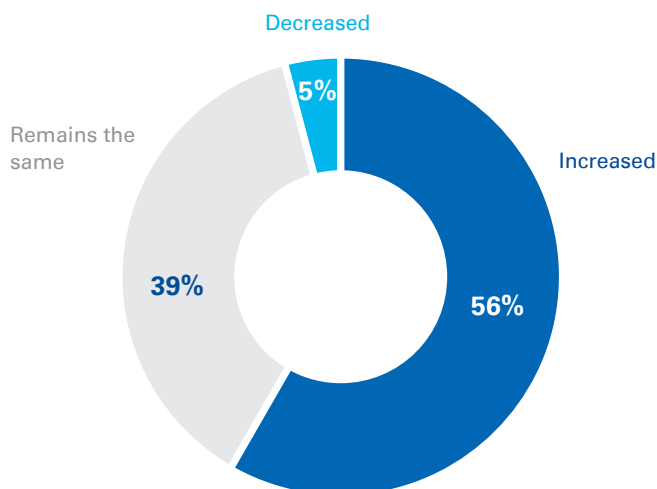
## Food as "medicine"

The majority of consumers appreciate the connection between food and energy, according to our survey. They also appreciate the impact of nutrition on immunity and life expectancy. However, the younger generation is more likely to assign even more power to food, agreeing with the statement that "food is better medicine than traditional medicine." And to track their health and fitness, they are more likely to use wearable monitors and applications.

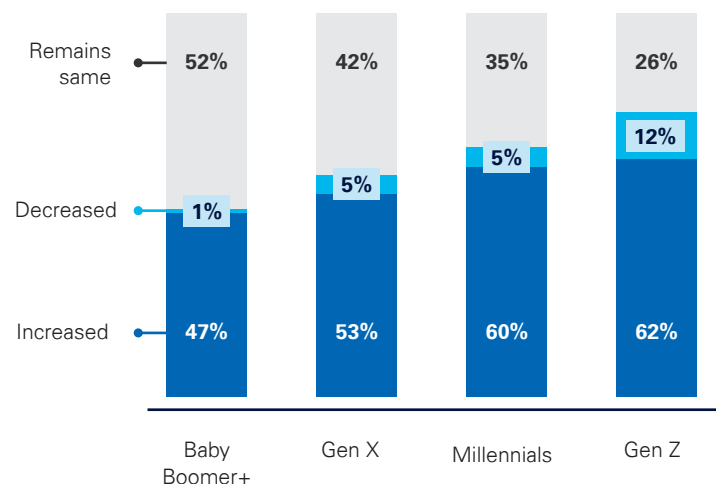


## Consumers are more interested in healthy eating

How have your views toward healthy eating changed in the last year?



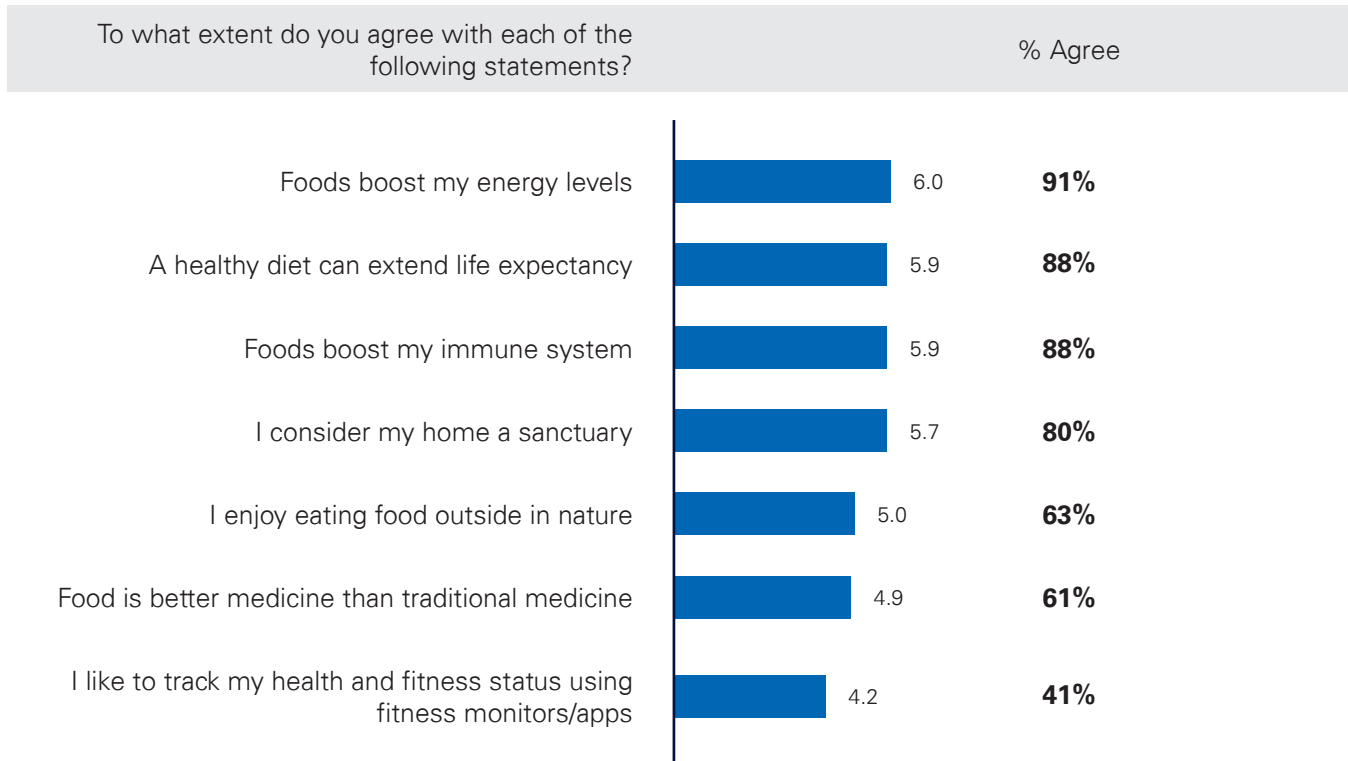
Change in importance of eating healthy in last year, by generation



All data on page is from the KPMG Consumer Survey, February 2022



# Consumers start to connect food with wellness and mental health



1=strongly disagree and 7=strongly agree; % agree reflects population with a rating of 5 or higher  
 KPMG Consumer Survey, February 2022



## Food that goes straight to your head

The extent of the pandemic's mental health fallout may not be fully understood for some time. No group was left untouched, across age, income status, and geography.

Consumers turned to food to feel better, and they continue to do so, with nearly three out of four saying that food provides comfort, enhances mood, improves mental well-being, and even provides a sense of joy. More than

half report improvements to their mental clarity and stress levels after eating.

Food and beverage companies should be aware of the flip side of this trend as well. Younger generations report negative mental health effects from food, Gen Z even more than millennials. These consumers were more likely to agree that food can make them tired or anxious, as well as guilty.

## Impact of food on mental state

To what extent to you agree with each of the following statements on how food impacts your mental state?



1=strongly disagree and 7=strongly agree; % agree reflects population with a rating of 5 or higher  
 KPMG Consumer Survey, February 2022  
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# Permissible indulgence

Consumers want treats that tantalize and deeply satisfy cravings without sacrificing healthy eating goals.

Permissible indulgence is where nutrition and mental health awareness collide. We already know that most consumers believe in the positive effects of food on mood. Often the item that does the trick has the ingredients consumers have gone out of their way to avoid.

However, a number of companies have successfully drawn consumers in by packaging guilty pleasures in smaller portions; reducing calories, carbs, fat, etc., in their favorite foods; and making treats healthier with nutritional add-ins.

For example, growth in better-for-you chocolate and other desserts are outpacing traditional versions as

consumers still want to indulge but with smaller portion sizes, less fat, and fewer calories. Yasso frozen Greek yogurt and My/Mochi rice dough-wrapped ice cream treats are two examples within the ice cream and frozen novelties category.

**“ I deserve a treat after the week I’ve had. ”**

## Consumer perceptions of indulgence

To what extent do you agree with each of the following statements?



1=strongly disagree and 7=strongly agree; % agree reflects population with a rating of 5 or higher  
KPMG Consumer Survey, February 2022



# Globalization and premiumization



Eating and drinking is a way for consumers to travel through their taste buds, and they want an authentic experience even if they don't leave home.

## New flavor profiles emerge

It's no surprise to find U.S. consumers favor Italian, American BBQ, Latin American/Mexican, and Chinese flavors. However at least 60 percent of all respondents expressed interest in purchasing snacks in these categories. However, less-common Mediterranean, Caribbean, and a variety of Asian flavors are in demand by a third or more of consumers surveyed, including Korean (45 percent), Japanese (42 percent), Thai (42 percent), Vietnamese (35 percent), and Indian (33 percent).

## The young, the rich, and the curious

The younger or the more money a consumer earns, the more likely they are to seek out nontraditional or ethnic flavors to snack on, per survey respondents. Millennials and Gen Z expressed greater than average interest in emerging flavor profiles, as did those earning \$100K or more in annual income. Younger people have greater exposure to other cultures, including through social media, and higher earners are more likely to have traveled and experienced global flavors firsthand.



I want to try something completely new.



**71%** of consumers enjoy foods with global or ethnic flavors.

**52%** prefer culturally authentic foods sourced from their country of origin.

## Determining what truly pleases consumers

Companies build loyalty by giving consumers what they seek most in their food and beverage purchases, from taste to nutrition. By monitoring social media chatter and determining net sentiment and correlation with consumer ratings for certain benefits, KPMG identified which attributes are necessary for pleasing the consumer base.

## Product attributes that help drive consumer loyalty

Consumers seek or expect certain features from their purchases. In food and beverage, attributes such as ability to satisfy hunger, quality, and availability are table stakes. For example, even though consumers are more patient since their experience with pandemic scarcity, how they feel about a brand can be impacted if the item isn't on the shelf. Larger companies have an advantage here, with more resources and flexibility to address supply chain challenges.

However, "performance attributes" are key to building consumer loyalty. By monitoring social media chatter and determining net sentiment and correlation with consumer ratings for certain benefits, KPMG identified which attributes are more likely to positively swing consumer sentiment:

- Meal replacement
- Taste
- Texture
- Energy
- Packaging
- Nutrition
- Portion size

Companies have an opportunity to increase consumer loyalty by understanding where these performance attributes intersect with the six key dimensions of food and beverage consumption. High consumer ratings for meal replacement speak to the convenience trend, packaging to sustainability, portion size to healthy eating and permissible indulgence, and so on. With this understanding about how consumers are now approaching purchases and consumption, food and beverage companies can highlight or incorporate attributes unique to their own businesses and markets.

All data on page is from the KPMG Consumer Survey, February 2022

# Convenience versus sustainability



Demand grows for easy access to food that doesn't cost the environment.

## Gen Z is generation snack

The primary reasons people snack are to satisfy cravings and squash hunger. Consumers also want to reward themselves and boost energy, which rank three and four in our survey.

However, younger consumers, and Gen Z by far, are more likely to replace meals with snacks (27 percent) because it's more convenient (34 percent) and affordable (18 percent).

Gen Z's motives for snacking also echo our other findings about the negative effects of food on their mental well-

being. They're more likely than older consumers to say they snack out of boredom or loneliness, or because they are tired or in a bad mood.

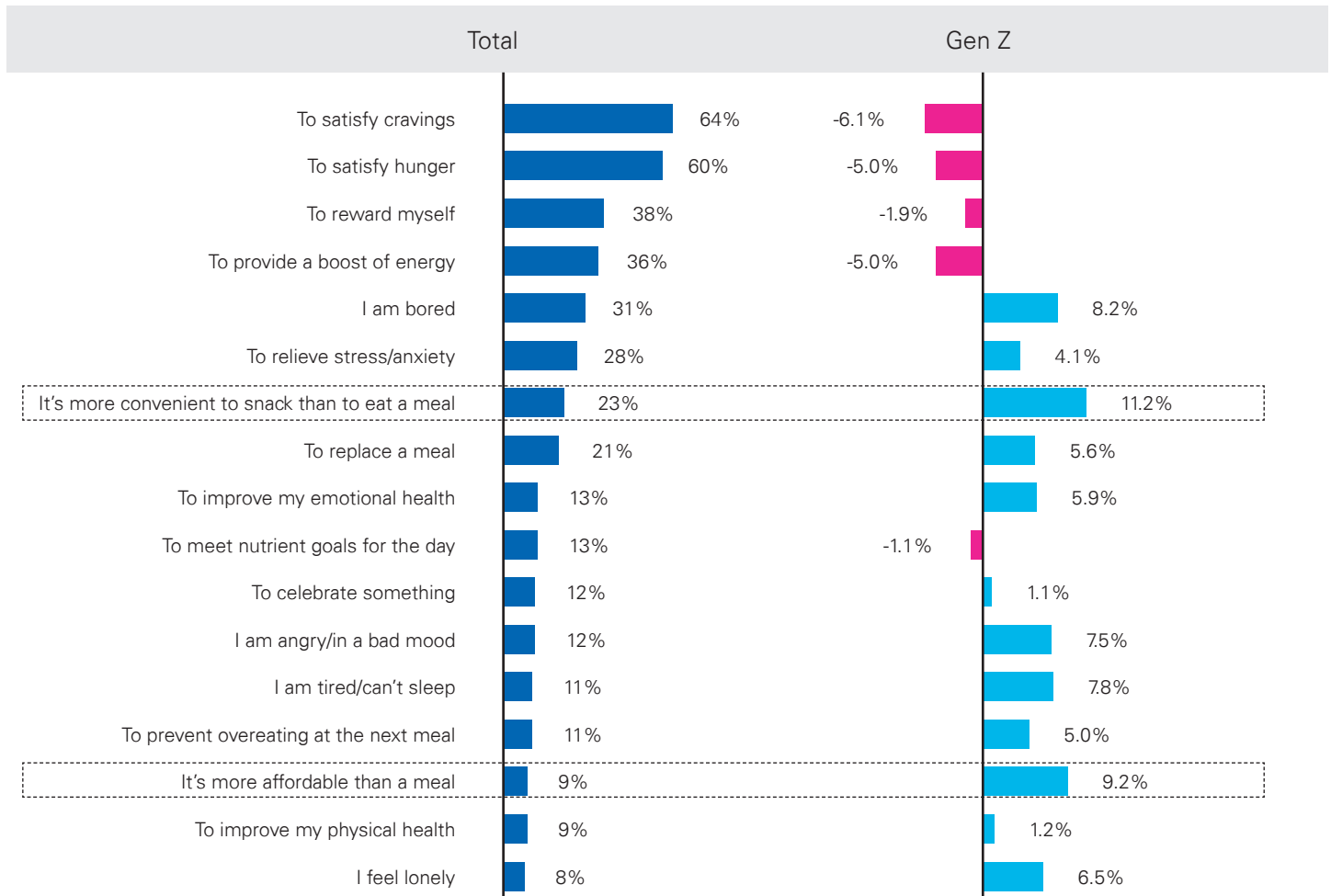
## Enlightened views of consumption

As important as convenience is to consumers, it's not a complete tradeoff for doing good. Amid a growing belief among many that individuals play a role in climate change, more than half of those surveyed—55 percent—say they are concerned about the environmental impact of their food purchases.<sup>7</sup>

<sup>7</sup> All data is from KPMG Consumer Survey, February 2022

## Snacking motives

Please select the reasons why you snack.



Content refers to graph, All data on page is from the KPMG Consumer Survey, February 2022





It's getting easier to do my part to protect the environment.



### Food and sustainability perceptions<sup>10</sup>

**83%** believe food should be sourced/prepared to minimize waste.

**67%** think food should be sourced locally.

**63%** say it's important to buy sustainably/ethically sourced foods.

The sustainability efforts that consumers respond positively to include recyclable packaging; sustainable ingredient sourcing and support for those communities; and energy and waste reduction targets.





# Extending brands into the metaverse



Companies that delve into this new virtual world will find willing consumers inside.

## Opportunities for creating a dual existence

The veil between the virtual and physical worlds is thinning as technology advances to better support the metaverse, where people interact with each other via avatar in virtual spaces. Within these spaces, accessed through a broad array of devices, visitors have opportunities to purchase digital assets and uncover promotions and prizes for real-life goods, savings, and other benefits.

The metaverse could represent the next transformation of commerce for food and beverage companies, from supporting online purchases to personalized product marketing to, now, deeper consumer-brand engagement.

## Future consumers are waiting in the metaverse

Much of the current activity in the metaverse is driven by younger generations, and the dollars spent are real. For example, gamers buy skins, avatars, extra lives, and other in-game purchases that add up to an estimated \$80 billion annually and growing.<sup>8</sup> That's a hint at the potential buying power.

**44%** of Gen Z consumers have used a metaverse platform in the last three months.

**35%** of Gen Z have made an on-platform purchase in the last three months.

**\$190 billion**

is the expected spend on virtual goods in video games alone by 2025.



Meet me in Minecraft for a snack.



The metaverse is an evolving virtual universe where people come together to share interactive, immersive, and social experiences by way of digital avatars and identities. The consumer's physical and virtual worlds blend together through socializing, gaming, shopping, fitness, education, working, training, and entertainment—or just hanging out with friends. Simply put, the metaverse is about bringing people together in new and previously unimaginable ways.



**Go boldly, not blindly, into the metaverse**

KPMG Consumer Pulse Survey Report, Spring 2022

<sup>8</sup> Source: Meghan Bobrowsky, "Big Tech Seeks Its Next Fortune in the Metaverse," The Wall Street Journal (November 9, 2021)

Percentage data 44%, 35%, \$190 billion from the KPMG survey, June 2022; Adroit Market Research, "Global Virtual Goods Market Size." (March 2019)



### Early successes and room to expand

Business models capable of bridging the virtual and physical worlds are emerging, and now is the time to test strategies and use cases. Food and beverage companies looking to dip a toe into the metaverse can explore with more temporary “pop-up” experiences before establishing a permanent presence.

To participate, companies need to consider what kinds of virtual goods are logical but enticing extensions of their physical products, and how they will excite consumers through gamification, storytelling, and other unique

aspects of the metaverse. As these virtual offerings induce consumers to purchase and try physical goods, the metaverse becomes a new and powerful channel for brands that establish a presence there.

Many companies that have used the metaverse to reach consumers report strong results, including 59 percent of marketers who said the metaverse is their most successful channel.<sup>9</sup>

## Brands in the metaverse



**Absolut Vodka** introduced Absolut.Land in conjunction with its 10th annual sponsorship of Coachella. Using devices thousands of miles away or on festival grounds, visitors mingled virtually on the “anti-gravity” dance floor, in the selfie room, and at the bar. Throughout the space, users could search for NFT fashion designer wearables and other collectables, as well as uncover promotions and opportunities to win cocktail kits and other real-life prizes.<sup>10</sup>



**Jimmy John's** allowed guests to its interactive experience to create sandwiches from a wide selection of ingredients, including a few secret options, and access special offers while visiting. They could enter their creations into a contest to be decided by consumers who would then be able to purchase the winning sandwich on a limited basis.<sup>11</sup>



**Coca-Cola** marked its one-year anniversary of its presence on the metaverse on International Friendship Day in July 2022 with a digital collectible “drop” into digital wallets. The company has created more than 4,000 digital collectibles for owners who can gain access to experiences, limited-edition product launches, and other perks. Coca-Cola also announced its intention to “remain active” in the metaverse with special activations planned for Halloween and International Singles Day in November.<sup>12</sup>

<sup>9</sup> Qualtrics, “Future of the metaverse: Advertising insights from marketers and consumers.” June 28, 2022.

<sup>10</sup> Pernod Ricard USA, “Absolut Invites Coachella Fans to Meet in the Metaverse with the Launch of Absolut.Land.” April 11, 2022.

<sup>11</sup> Thrillist, “You Can Create a Jimmy John's Sandwich in the Metaverse to Eat in Real Life.” May 18, 2022.

<sup>12</sup> Coca-Cola Company, “Coca-Cola Marks First Anniversary in the Metaverse with Collectibles Drop on International Friendship Day.” July 27, 2022.

# High prices and empty shelves

Inflation and ongoing supply chain disruption will potentially delay some opportunities for the industry.

The consumer mindset hasn't completely recovered from the fear and frustration of trying to secure food and other goods at the height of the pandemic when new challenges piled on.

Continued supply chain challenges, labor and wage pressure, and increased commodity and shopping costs have been forcing companies to pass costs along to consumers. And diesel and gas prices are still high compared to last year.<sup>13</sup>

## Consumer sentiment and rising food costs<sup>14</sup>

**78%** have perceived grocery prices rising over the last six months, more than in any other product category.

**89%** are concerned about grocery price inflation.

**54%** worry about their ability to afford food or basic household goods.

## Consumer sentiment and missing inventory<sup>15</sup>

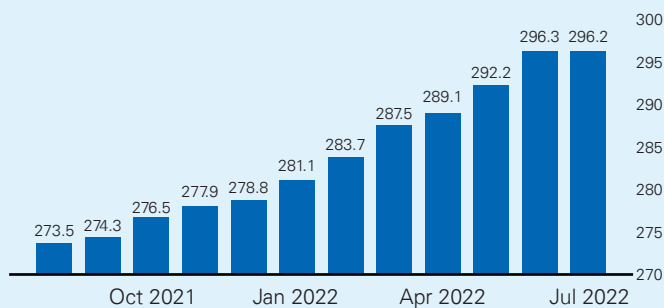
**58%** of consumers have noticed stock outs in the grocery store in the last three months.

**78%** have expressed concerns about the lack of goods.

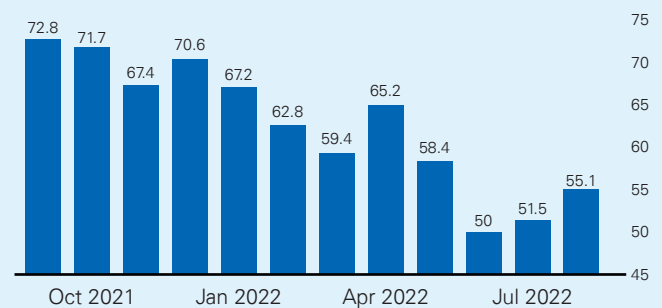
**54%** say they will switch brands when their favorite product isn't available in the grocery store, and they are less likely to try another retailer or go online.

## Rising inflation pushing consumer sentiment negative

United States Consumer Price Index (CPI)



United States Michigan Consumer Sentiment



Food CPI—Bureau of Labor and Statistics, Consumer Sentiment—University of Michigan Survey of Consumers

<sup>13</sup> Company earnings announcements, press releases, KPMG Analysis, May 2022

<sup>14</sup> KPMG Consumer Pulse Survey, May 2022

<sup>15</sup> KPMG Consumer Pulse Survey, May 2022

**Consumer response: Look for alternatives**

More than one in three consumers say they plan to change how they shop for groceries to offset higher prices, including one in five who indicate they plan to buy fewer items altogether. When they do shop, their primary tactic will be to seek promotions and discounts.

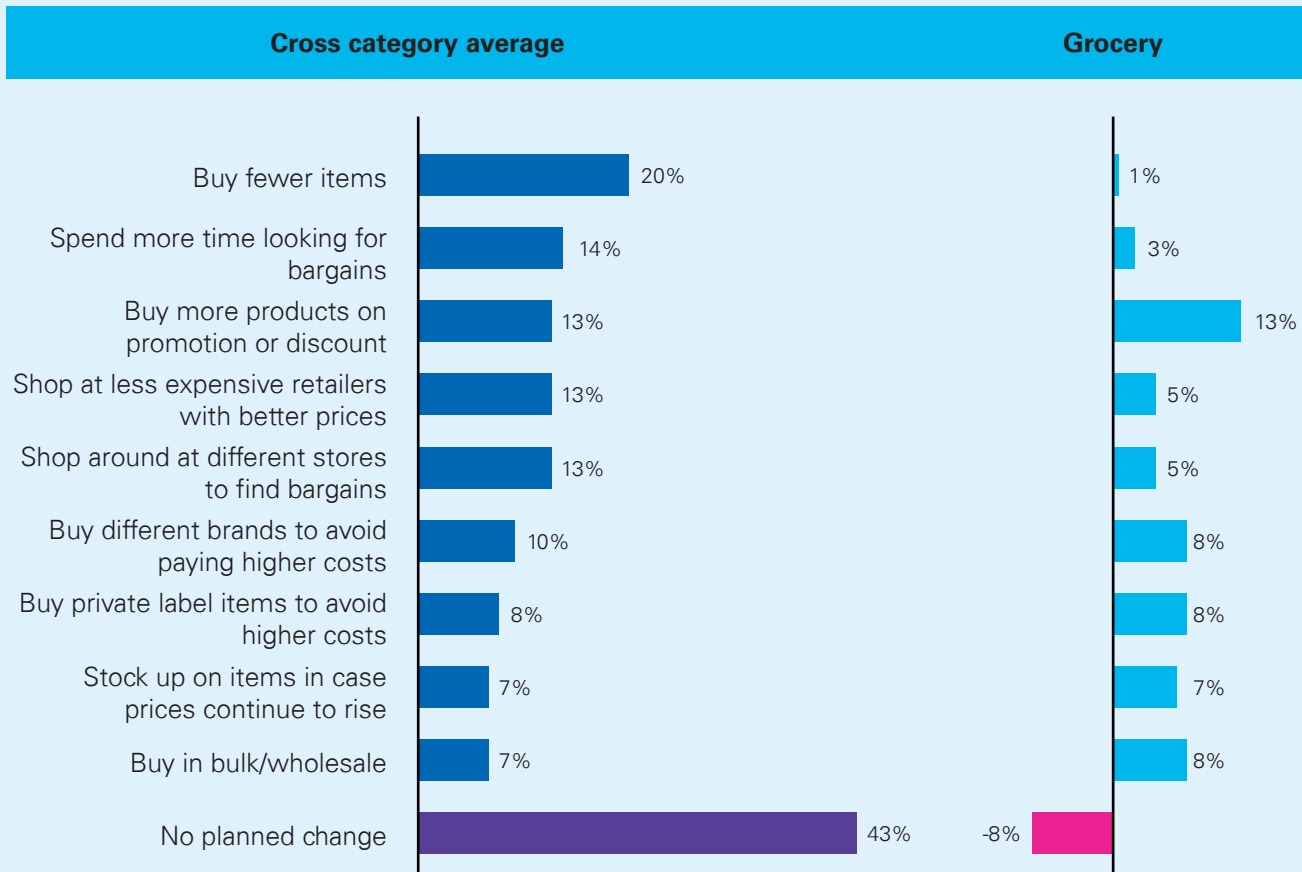
Additionally, consumers say they are willing to buy different brands and private label as well as buy bulk and wholesale to save money. They grew more comfortable making substitutions for their favorite products during the pandemic, making it easier to do it again when they think it's necessary.

Others on a stretched budget are using Buy now, Pay Later (BNPL) applications for their food and beverage needs. In March 2022, 61% of U.S. consumers surveyed said they used BNPL for groceries, household supplies, and other staples, up from 44% in September 2021.<sup>16</sup>

However, even in this challenging environment, some premium demand will remain. Consumers will be increasingly selective about the categories on which they concentrate their purchases of premium products.

## Planned changes in shopping behaviors to offset price increases

Do you plan on changing your purchasing behaviors to mitigate rising prices, and how?



KPMG Consumer Pulse Survey, May 2022. Respondents were allowed to select more than one option, therefore, percentages total over 100%.

<sup>16</sup> Leticia Miranda, "How consumers use buy now, pay later apps to pay for food, gas and other basics," NBC News (April 20, 2022)

All data on page is from the KPMG Consumer Survey, February 2022

# What's next

Food and beverage companies have more data about consumer demand patterns and dynamics at their fingertips than ever before.

Social media users openly discuss their sentiments about specific brands online. Credit card data analysis provides insights into consumer channel preferences and spend. And cell phone data can indicate movement—where and when consumers are shopping.

To truly leverage all this valuable information, food and beverage companies need to enhance their data analytics capabilities in ways that will allow them access to deeper and broader consumer and demand intelligence than can be gleaned through current shopper insights and standard industry analytics. These data-driven and analytical capabilities can then be applied to growth strategies and priorities to:

- Define the key dimensions of demand that matter to current and potential consumers, whether they buy food and beverage based on personal values, enjoy online interaction with brands, prioritize convenience, want to indulge just a little—or any combination of desires and needs.
- Develop a granular understanding of demand (who is buying what and where) and the why behind that demand: the key consumer motivators and decision drivers.
- Target innovation and acquisition priorities from demand insights that better inform the organization's growth agenda, complementing more traditional analysis of M&A and organic growth opportunities.
- Determine consumer willingness to pay, specifically where growth is being driven by premiumization, and ensure the product portfolio and price points are aligned to the needs to multiple consumer segments
- Help demonstrate measurable progress against key ESG goals to shareholders and other stakeholders.
- Develop a deliberate metaverse participation strategy to attract consumers where more are spending time and making purchases.

Armed with a growth strategy informed by a comprehensive and advanced analysis of consumer data, food and beverage companies can meet evolving shopper demands today and define the right product portfolio for the future.

# About the authors



**Jamil Satchu**

Jamil, a principal in the KPMG Strategy practice, works with corporate and private equity clients on market attractiveness analysis, commercial due diligence, and growth strategy priorities. He has a deep understanding of consumer dynamics and motivations, and how those relate to current and future demand. Jamil has a specialization in the food and beverage industry, and he has worked on numerous projects leveraging demand science and analytics to define sustainable demand platforms and inform growth strategies, both through acquisition and innovation.



**Julia Wilson**

Julia Wilson, managing director in the KPMG Advisory practice, advises corporate and private equity clients in finding performance improvement opportunities both inside and outside of the deal space. She has significant experience in the consumer and retail industries and her areas of focus include consumer insights and research, commercial and operational diligence, large-scale performance transformation, revenue growth management and pricing, cost takeout and performance optimization, market opportunity analysis, and strategic option analysis.



# Contact us

The KPMG Consumer & Retail Strategy practice works with large corporations, innovative start-ups, and financial investors in multiple sectors, including across the food and beverage ecosystem. Our consumer and retail team actively analyzes signals in all major international markets and has identified trends reshaping food and beverage consumption through primary research and by leveraging proprietary data assets. With knowledge and experience, KPMG professionals provide companies with the insights they need to seize opportunities through enterprise-wide transformation and M&A.



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