



Grocery gains are here to stay

Consumer pulse survey |
Grocery forecast 2022



Executive summary:

Grocery sales will rise in 2022

After a pandemic-driven sales surge in 2020 followed by strong sales in 2021, the grocery industry will likely see even higher sales as consumers are planning to spend more in 2022. With the lengthy pandemic increasing the desire to eat more meals at home and many consumers still able to work remotely, cooking at home remains popular, driving up grocery spend.

The results of KPMG Consumer pulse survey | Grocery 2022 forecast – special edition reveal an increase in consumer grocery budgets, which are expected to total a monthly average of \$611 per household in 2022 compared to \$532 in 2021.¹ Last year, online grocery delivery services increased significantly – a growth spike that has remained strong. In 2022, we believe overall grocery spend (year over year) will trend up; however, reaching margin targets will be increasingly difficult with rising inflation and continuing labor and supply chain challenges.

Inflation will be a key factor in 2022 for both pricing and margins. In 2021, food prices rose 6.1 percent.² Consumer prices were up 7 percent³ (year over year) in December 2021, a 12-month increase not seen in nearly 40 years.⁴

Forecasts for grocery inflation for 2022 run at 8 percent during the first half of 2022, dropping to 4 percent in the second half of the year.⁵

Based on the insights from our survey data, we expect another solid year for the grocery sector, despite increasing inflationary pressures and uncertainty relating to new COVID-19 variants. In the year ahead, consumers will continue to expect innovation in support of their meal rotation planning, plan to use meal kits more, and engage in healthier eating habits. They will continue shopping for groceries online, and will expect more value for their money in a variety of ways, most notably through loyalty programs.



Eating more meals from home has shifted from a necessity of the pandemic to a consumer preference. This appears to be a structural shift in consumer behavior.

— Matt Kramer
National Sector Leader,
Consumer & Retail,
KPMG LLP

¹ KPMG Consumer pulse survey | Grocery 2022 forecast – special edition. (Survey fielded October 29 - November 7, 2021. Slide 4 (All additional slide references in this report are from this source unless otherwise noted.)

² Economic Research Service, U.S. Department of Agriculture, *Summary Findings, Consumer Price Index for Food*, January 2021.

^{3,4} U.S. Bureau of Labor Statistics, CPI Press Release, January 12, 2022.

⁵ IRI Worldwide, "Discovering Pockets of Demand, CPG Market Review and Outlook." December 2021.

Key survey insights

Based on our survey data, some of the key themes explored in this report include:

-  How grocery budgets and consumer spending will rise over the next 12 months.
-  What trends are affecting the grocery sector and the impact this will have on future growth.
-  How inflationary pressures will impact consumer behaviors and grocers' response to managing rising costs.
-  Where will consumers eat more meals this year and how will the hybrid work model influence such decisions.
-  How will restaurants attract more consumers this year and what impact will it have on grocery sales.
-  How and why online grocery remains strong in the current environment and what is fueling the momentum behind this trend.
-  What is driving the growing popularity of meal kits and how will at-home menus change.
-  How does meal consumption vary across generations, and what implications will generational preferences have on the future of the grocery sector.

To learn more, we invite you to take a deeper dive into our survey results on the following pages and will be happy to discuss the data and insights derived from our research.



Grocers will need to rethink their strategies and business models in the future to appeal to the growing Millennial and Gen Z populations, which prioritize convenience, experience, and innovation."

— Scott Rankin
National Advisory and Strategy Leader, Consumer & Retail,
KPMG LLP

Matt



Matt Kramer
National Sector Leader,
Consumer & Retail
mattkramer@kpmg.com

Scott



Scott Rankin
National Advisory & Strategy Leader,
Consumer & Retail
scotrankin@kpmg.com

Julia



Julia Wilson
Advisory Managing Director, Strategy
juliawilson@kpmg.com

Bigger budgets, higher spending

The dramatic shifts in consumer behavior around food shopping and eating during the homebound lifestyle of the 2020 pandemic resulted in an unplanned boon for grocers. As the world gradually opened back up and higher vaccine rates were achieved in 2021, grocery sales remained strong. Entering into 2022, sales are expected to climb, but margins will be challenged by rising inflation, increased consumer price sensitivity, and higher product costs versus input costs.

Survey results reveal that a larger percentage of consumers expect to spend more this year on groceries, budgeting a monthly average of \$611 in 2022 compared to \$532 in 2021.⁶ Nearly one-third (31 percent) of participants said they plan to spend that amount or more on groceries in the year ahead, compared to 24 percent last year.⁷

Inflation hits home

While budget hikes reflect the intent to cook from home more, they also indicate an anticipation of higher prices in 2022. Consumer prices were up 7 percent (year over year) in December 2021, a 12-month increase not seen in nearly 40 years.⁸ Meanwhile, the producer price index rose to 9.7 percent in the last 12 months,⁹ and grocery prices climbed 6.3 percent higher,¹⁰ representing the fastest pace of food inflation in more than a decade.

Consumers have absorbed price increases over the last 12 months, thanks to higher salaries, government stimulus payments supplementing household incomes, and sheer necessity, given work from home remains elevated. However, the forecast for grocery inflation in the first half of 2022 is expected to be 8 percent,¹¹ which will squeeze consumer wallets even tighter, having an impact on their buying decisions. So where will we see consumers focus their spend in 2022?

While industry estimates anticipate grocery sales to grow approximately 2.7 percent¹² in the year ahead, consumers are more optimistic about their spend levels. For example, our grocery forecast found consumers are expecting to increase their spend between 10 to 15 percent across key discretionary and essential categories by December 2022, which is significantly higher than what consensus market forecasts expect grocery sales to be.¹³

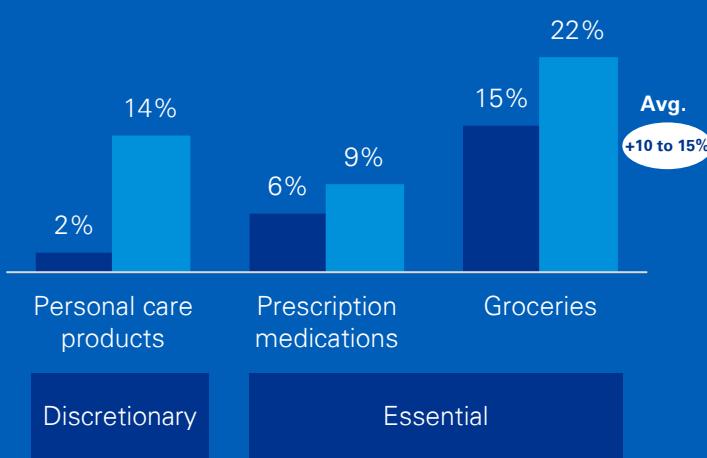
Monthly grocery spend budget 2021 vs. expected 2022

Average spend in 2022 expected to be
\$611 vs. \$532 in 2021



Consumers expect to spend more on groceries in 2022

Anticipated percent change in household spend



■ December 2020 change compared to December 2019

■ Anticipated December 2022 compared to anticipated December 2021

^{6,7} Slide 4
U.S. Bureau of Labor Statistics, CPI Press Release, January 12, 2022.

¹² Mercatus Research and Euromonitor, Data accessed January 4, 2022, Slide 5

^{9,10} U.S. Bureau of Labor Statistics, PPI Press Release, January 13, 2022.

¹¹ IRI Worldwide, "Discovering Pockets of Demand, CPG Market Review and Outlook," December 2021.

Eating more meals at home

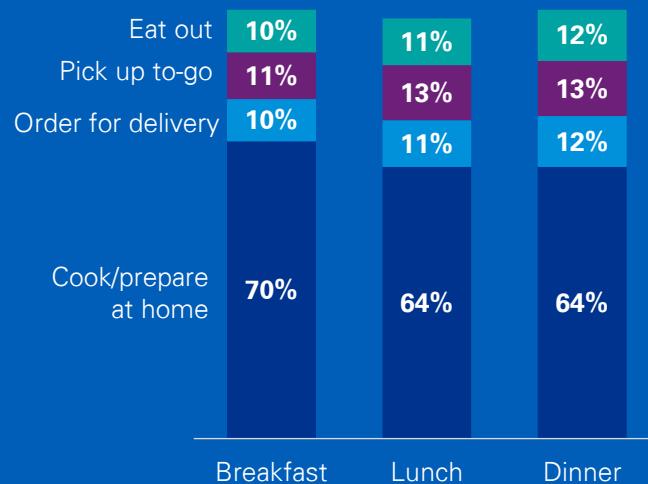
Entering 2022, the grocery industry will experience an uptick resulting from the impacts of the Omicron variant and consumers remaining in a work-from-home environment and generally traveling less, prompting more cooking and meal consumption at home. In general, consumers cooked approximately 64 percent of their meals at home in 2021 compared to eating out (10 percent), picking up take out (12 percent), and ordering for meals for delivery (10 percent).¹⁴

There's no place like home

Many consumers surveyed still have the ability, and often prefer to, work from home. Of the 60 percent¹⁵ of survey respondents able to work from home, over half (54 percent) said they work from home full time, increasing the likelihood of eating meals at home.¹⁶ Meanwhile, most survey respondents ranging from 49 to 59 percent believe they will keep the same eating patterns in 2022 as they did in 2021.¹⁷ Specifically for dinner, the number of respondents that will keep the same eating patterns range from 49 to 54 percent.¹⁸ Those expecting to cook more or a lot more are significant, 35 percent, and will drive additional grocery spend.

COVID-19 weekly eating habits during 2020/2021

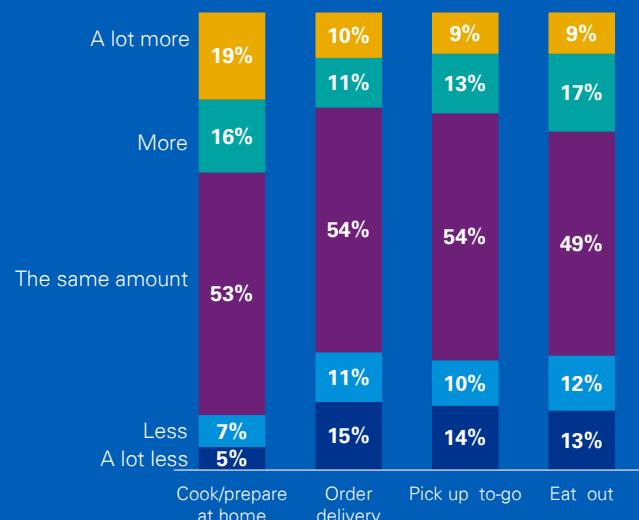
Averages by meal, 7 days/week



Totals may not sum to 100 percent due to rounding.

Dinner eating habits expected in 2022

Consumers to cook a lot more or more



Totals may not sum to 100 percent due to rounding.

¹⁴
^{15, 16}
^{17, 18}

Slide 10
Slide 15
Slide 12

Managing changing expectations

Despite the fact that the majority of consumers are eating the same amount or more at home, the grocery sector also faces changing generational behaviors as some consumers plan to go out more to eat in 2022 than in 2021.¹⁹ Although foot traffic to restaurants has been depressed during much of COVID-19, it has picked up in the back half of 2021.²⁰ Across all mealtimes, consumers report eating out an average of 25 percent more in 2021 than they did in 2020.²¹ While still a higher percentage overall, eating at home dropped 10 percent in 2021 from the prior year.²²

Younger generations prefer to eat out more

While more Baby Boomers prefer to cook from home, younger generations tend to eat out and cook less. Survey results show most (84 percent) of Baby Boomers favor cooking at home for dinner, while only 16 percent order food for delivery, get takeout or eat out.²³ In contrast, 51 percent of Millennials and 53 percent of Gen Z prefer to eat out, get take out, or order delivery for dinner.²⁴ It's clear these younger generations prefer the flexibility of away-from-home options. Grocers should consider ways to attract younger generations with convenient and innovative pre-made meals and other on-the-go options in the future.

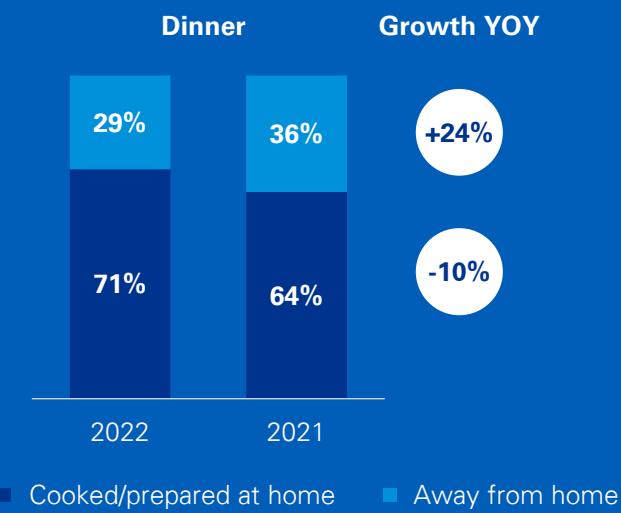
Where you eat and at what cost?

According to the USDA, food-at-home prices are expected to increase between 1.5 and 2.5 percent in 2022 while food-away-from-home prices are expected to increase between 3.0 and 4.0 percent.²⁵ As a result, we believe restaurant and food services are pricing up rapidly and disproportionately more than grocery stores to compensate for the pandemic-related drop in demand and significantly higher labor costs. Consumers may pay more to a certain point; however, they will continue to look for savings and other options if restaurants increase pricing too fast.

Still, as more people venture out to eat, they may be less willing to pay the high premiums or convenience fees paid in 2020. Restaurants must balance the need to protect their already tight margins with the risk of losing customers. Grocers are well aware how rising prices can impact buying behaviors. Results from our consumer survey illustrate how consumers are prepared to react to inflationary pricing. When asked how they would counter rising prices during the holidays, 22 percent would buy fewer items, 22 percent would buy different brands and 21 percent would buy private labels.²⁶

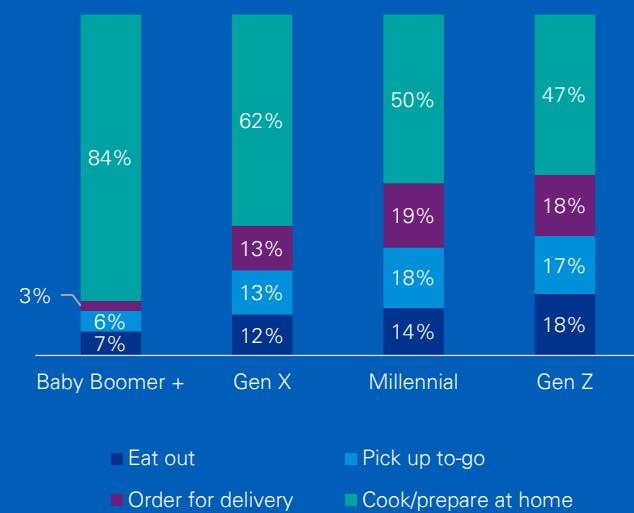
COVID-19 weekly dinner eating habits

Prepared at home vs. eating out



COVID-19 dinner eating habits by generation

Youngest generations eat out more, cook less



Totals may not sum to 100 percent due to rounding.

¹⁹ Slide 12

²⁰ Slide 14

^{21, 22} Slide 9

^{23, 24} Slide 11

²⁵ USDA Economic research, Food Price Outlook, 2021.

²⁶ KPMG Consumer pulse survey | Grocery 2020 forecast – special edition, December 2021.

Online sales continue momentum

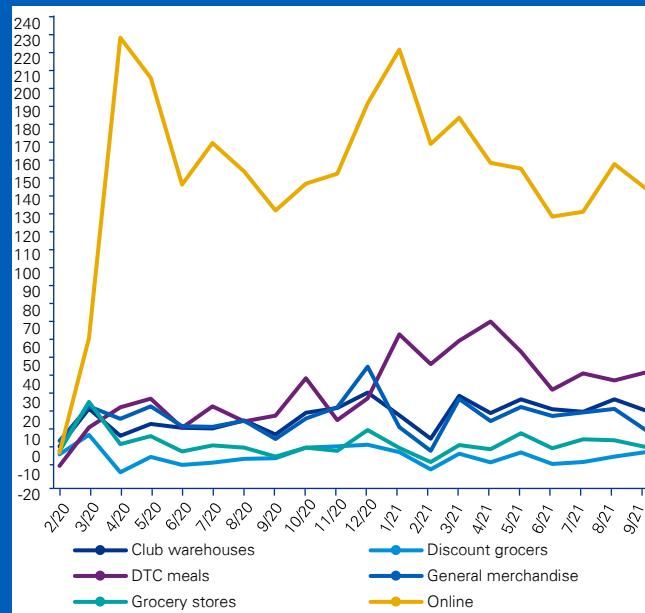
Due to COVID-19, online grocery experienced significant growth relative to pre-COVID-19 levels as of January 2020 – a spike that has remained.²⁷ Convenience and multiple fulfillment options continue to be attractive features. In fact, approximately 38 percent of online grocery shoppers surveyed cite buy online, pick up in store as their top fulfillment choice, while 33 percent prefer home delivery, and 23 percent choose curbside pick up.³⁸

Online grocery shopping remains high

While not as high as 2020 levels, online grocery shopping remains very high across most generational segments. Not surprisingly, Baby Boomers decreased their online grocery shopping, dropping from 64 percent of online shopping in 2020 to 35 percent in 2021.³⁹ However, in 2021, online grocery shopping was well received and achieved high numbers across younger generations, with Millennials taking the lead (74 percent), followed by Gen Z (71 percent) and Gen X (67 percent).³⁰ This generational difference bodes well for the future of online grocery spend and grocers who invested in a digital strategy. It also increases the urgency for grocers to work on ways to make digital channels more profitable in the future as they account for a higher percentage of total sales.

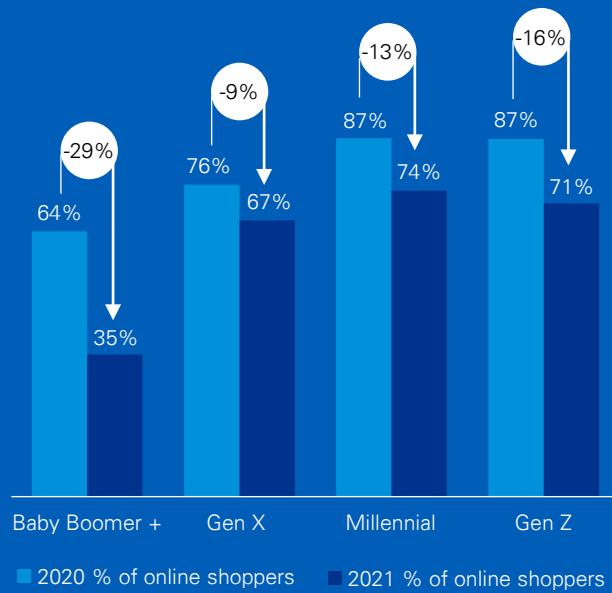
Online grocery delivery momentum continues

Industry group sales index February 2020 through September 2021



Online grocery purchases still very high

Percentages over the last three months



²⁷ Slide 6
²⁸ Slide 23
^{29, 30} Slide 22

Adding menus and healthier options

What's for dinner? During COVID-19 2020 lockdowns, the typical consumer meal rotations averaged around eight standard at-home dishes.³¹ However, in 2021 the average number of at home menus in rotation grew to 13, a 63 percent increase.³² This illustrates the need for meal variety to combat menu fatigue, which creates boredom and is a risk to grocers losing customers to restaurants.

Healthier menu options wanted

Since COVID-19 started, many of the consumers surveyed are pursuing healthier diet options. Comparing 2020 vs. 2021, more consumers in 2021 changed their diets to include high protein (38 percent), low carb (37 percent), sugar-free (27 percent) and low sodium (24 percent) ingredients.³³ This cultural shift toward health and wellness has encouraged many companies to rethink products, using less processed and more natural ingredients.

Implications and opportunities

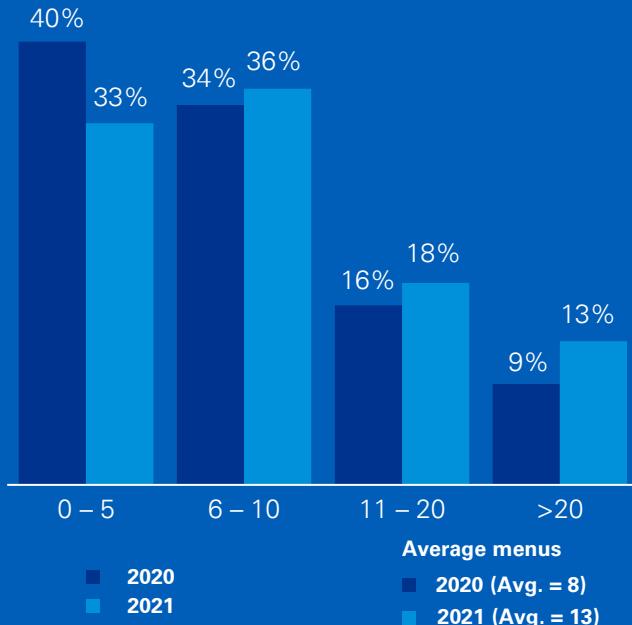
As consumers look for more product variety and reach for healthier options, grocers should continue to segment customers to personalize offers, increase consumer engagement, and expand their share of growing category purchases. Doing so can help them better understand consumer shopping preferences and also identify underserved wants or needs that may translate into new product offerings and profit growth.



^{31, 32} Slide 17
³³ Slide 21

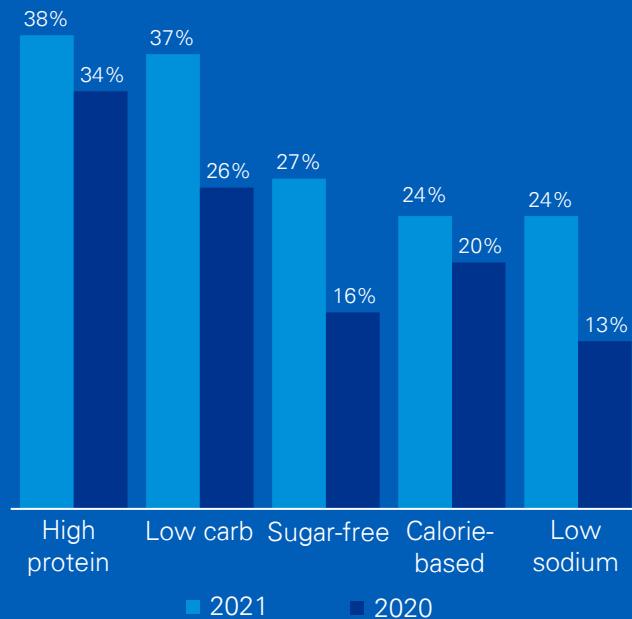
Consumers expanding home menus

Menus in rotation increases to 13 avg



Dietary changes

Increased interest in high protein and low carb diets



Exploring the meal kit phenomenon

Meal variety and quality ingredients helped drive the rapid growth of meal kits during the pandemic, an innovative trend that continues to grow in popularity.

A typical meal kit is a subscription service that includes pre-measured ingredients and clear directions to simplify meal prep and make it easier to prepare a home cooked meal. It is designed to combine the freshness of grocery with the convenience of home delivery. In 2021, 35 percent of surveyed consumers used a meal kit service, up from 25 percent in 2020.³⁴ That number jumps even higher in 2022, with 61 percent of consumers expecting to increase their usage of meal kits by either more or a lot more.³⁵

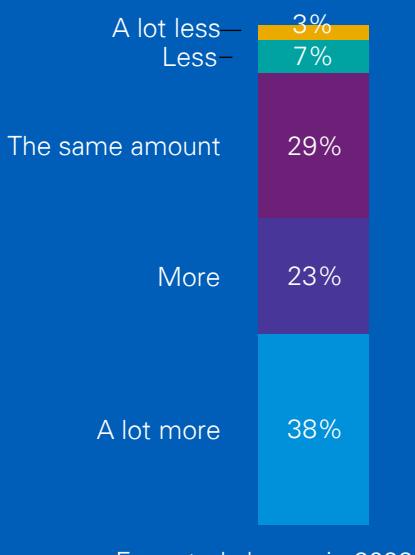
Many options to choose from

Among the major meal kit providers, consumer respondents cite Hello Fresh (16 percent) as the most frequently used provider, followed by Blue Apron (12 percent) and Home Chef (11 percent).³⁶ In addition to convenience and variety, market maturity, operational expansion, strategic distribution, and competitive price points are helping drive meal kit growth.

Meal kit pricing ranges by brand but due to the large number of providers, cheap, midrange, and high-end options are now available. Many popular meal kit brands are now available in grocery stores making it an easy and convenient, grab-and-go option. Meanwhile, grocery stores are seizing the opportunity by expanding their own portfolio of fresh, ready-made meals to increase shopper convenience and pursue the Gen Z and Millennial generations in search of flexibility.

Meal kit use to increase over COVID-19

Anticipated meal kit use in 2022



Expected change in 2022



Grocers are wise to seize the loyalty opportunity, which can provide a treasure trove of customer data, and can be used to drive revenue and significantly personalize and enhance customer experience.”

— Julia Wilson
Advisory Managing Director, Strategy,
KPMG LLP

^{34, 35} Slide 18
³⁶ Slide 19

Embracing loyalty, managing stockouts

About half (45 percent) of consumers purchase groceries from one primary store.³⁷ Loyalty programs are considered extremely important by 25 percent of consumers who cite these programs as the primary reason for shopping at a preferred store.³⁸ Both trends are slightly higher for online shopping.

Loyalty continues to be a great opportunity for grocers. A properly executed loyalty program can be a competitive differentiator, increasing customer retention, brand affinity, and share of wallet.

Loyalty programs do more than reward customers with discounts and perks. They can help grocers retain their existing consumer base by collecting data and insights on shopping patterns and behavior to deliver more personalized user experiences. They also are becoming a growing alternative revenue source. Grocers have begun leveraging direct marketing opportunities with consumer goods companies who are willing to pay for direct access to loyalty customers. As such, loyalty programs are an integral component to enhance consumer experience.

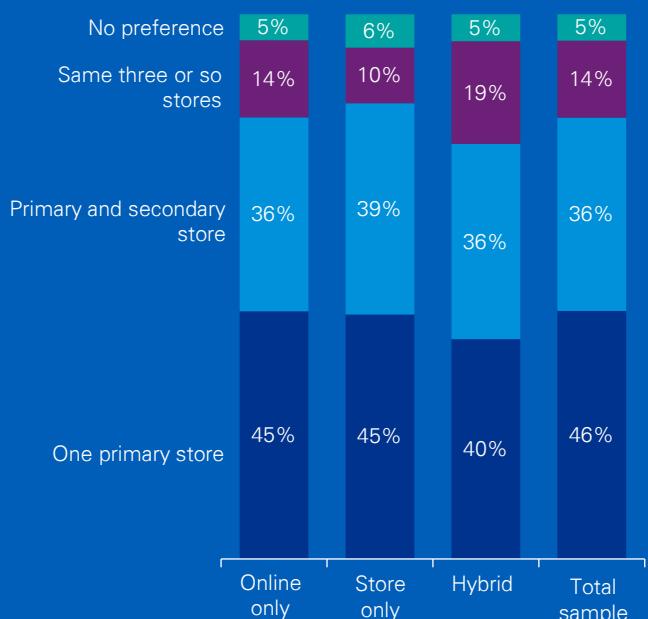
Stockouts are a significant concern

Approximately 71 percent of respondents are concerned with grocery shortages or stockouts, with 37 percent being "very concerned" and 34 percent "somewhat concerned."³⁹

When their favorite items were out of stock, 35 percent of consumers surveyed admit switching brands.⁴⁰ This challenge of keeping in-stock levels high enough to not hurt customer experience will be important as COVID-19 variant surges continue to drive demand spikes.

Grocery shopper loyalty by channel

Loyalty program key consideration



When favorite products are out of stock

Impact of product shortages



^{37,38} Slide 24
^{39,40} Slide 25

Winning at grocery

Grocery sales and budgets are expected to rise in 2022 due to high demand. While strategically managing through this inflationary period, it's important to think beyond it too. Examine ways to retool your business strategy and operations to elevate experience and meet evolving needs. By looking ahead, grocers can manage through current challenges and take steps now to win in the future.

Consider the following:

- **Ensure digital is built for scale:** Evaluate the consumer journey from end to end, ensuring that the technology, store operations processes, and fulfillment options are optimized for profitable growth. Many grocers make significantly less or actually lose money on online orders, so it is critical to fully understand the path to purchase to maximize the economics of these transactions.
- **Take a fresh look at loyalty programs:** Rethink loyalty programs to seize new opportunities. Loyalty programs are more than discounts and rewards to loyal consumers; they are a gateway to valuable consumer data to better manage consumer relationships. They offer the ability to capture, leverage, and analyze consumer data to personalize offerings, optimize marketing campaigns, realize alternative revenue sources, and significantly enhance customer experiences.
- **Emphasize strategic revenue growth management:** Consider the pressures inflation is having on margin pressures. While consumers may expect to pay more, they will continue to seek deals or look to substitute. Grocers can navigate supply and demand challenges of inflation by taking a strategic approach to revenue growth management. Use analytics to understand what pricing decisions can increase revenue while limiting the impact to unit volumes, implement category/assortment strategies toward more profitable products, optimize trade promotions, and increase marketing efficiencies.
- **Seek to counter rising labor costs:** For many, cost and availability of labor is seen as the greatest threat to profitability, challenging already razor-thin margins. Automating back-office functions and maximizing distribution and logistics efficiencies can help drive down costs and recapture margins.
- **Focus on margin improvement opportunities:** As prices climb higher, consumers will become more careful with their spend, seeking greater value and lower prices offered by private labels. Grocers will benefit by seeking to expand their inventory of private label and other high margin products.
- **Increase product variety and explore healthy alternatives:** After reducing their selection to cover peak demand and help keep shelves stocked during the pandemic, grocers and CPGs can add more product variety to meet consumer demand. Consider adding healthy alternatives to benefit from consumer health and wellness trends.
- **Realize evolving consumer preferences:** In 2020, Gen Z became the largest generation, making up nearly one-third (32 percent)⁴¹ of the global population. Born between 1996 and 2010 in a world where the internet always existed, these digitally savvy consumers prioritize convenience, experience, and innovation. Grocers that begin to factor generational preferences will be better positioned for the future.



For additional KPMG Consumer & Retail research reports, visit us at visit.kpmg.us/consumer-retail.

⁴¹ Pew Research Center, "On the cusp of adulthood and facing an uncertain future: What we know about Gen Z so far," May, 2020.



Contact us

Matt Kramer

National Sector Leader
Consumer & Retail, KPMG LLP
E: mattkramer@kpmg.com

Scott Rankin

National Advisory & Strategy Leader
Consumer & Retail, KPMG LLP
E: scotrankin@kpmg.com

Julia Wilson

Advisory Managing Director, Strategy
Consumer & Retail, KPMG LLP
E: juliawilson@kpmg.com

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