

## Food Firms Cook Up Ways to Combat Rare Sales Slump

CAMDEN, N.J. -- The packaged-food industry has long touted itself as recession-proof. Strapped consumers are shattering that assumption, setting off a frenzy in the nation's supermarket aisles and cooking labs.

In the last quarter of 2008, consumer spending on food fell by an inflation-adjusted 3.9% from the previous quarter -- its steepest drop in 62 years, the Commerce Department said. So, food giants are racing to adapt to what they believe is a lasting shift in eating and shopping habits.

Kraft Foods Inc. recently launched an application for Apple's iPhone. Called the iFood Assistant, it allows people to search for recipes and manage their shopping lists. Nestle SA is pushing hard its popular Lean Cuisine frozen entrees, offering five for \$10 in some stores. Campbell Soup Co. is creating more sophisticated recipes that mimic restaurant offerings, such as Braised Beef with Shallots made with the company's Swanson beef stock.

Food executives worry that shrunken nest eggs -- along with an overhang of home foreclosures, personal bankruptcies and credit-card debt -- may cause shoppers to tighten the purse strings indefinitely.

A look inside Campbell's response shows how seriously the industry is taking the sales downshift. Last summer, consumers were apprehensive about rising food and gas prices. Today, "they're worried about their ability to support their families at all," said Charles Vila, who studies consumer behavior as Campbell's vice president of consumer and customer insights. "That's a big transition in six months."

Denise Morrison, Campbell's president of North America soup, sauces and beverages, says the company is girding for "a long-term shift" in consumer attitudes. "More than ever, understanding what consumers are going through will inform our strategy."

The 140-year-old maker of condensed soups, V8 beverages and Pepperidge Farm cookies each year interviews 50,000 consumers. With some, researchers visit homes to peek inside cabinets and refrigerators. Researchers also go grocery shopping with consumers and attend dinner parties to understand how different people cook.

The company says it started noticing subtle behavioral shifts about a year ago. Consumers were "going to fewer stores, going to stores where they could get the widest array of products at the best value, and preparing lunches to take to work," says Mr. Vila.

Kristen and Ed Read of Maple Shade, N.J., are among the families Campbell has shadowed. Ms. Read, 39 years old, is an occupational therapist; her husband, 40, is a Defense Department contractor.

They live with their 6-year-old son in a two-story, yellow-sided house in a neighborhood of small, tidy homes dating back to the 1940s. Campbell chose the family because Ms.

Read, as a working mother in a middle-class community, is representative of its target customer.

When Mr. Vila first visited the Reads last spring, they weren't terribly worried about the economy. "We were still carefree back then. We were going out to dinner four times a week," says Ms. Read. They frequently went to Tortilla Press, a Mexican restaurant where the bill was usually \$40 to \$50.

By the time Campbell checked in again in October, the Reads were growing nervous about rising food and gasoline prices as well as the increasing number of layoffs they were hearing about in the news. "We weren't directly hit, but it was getting closer to home," recalls Ms. Read. "That's when I started to think, 'I better buckle down and get serious.'"

Campbell has experience with downturns. The company advertised heavily during the early years of the Great Depression, sponsoring radio programs with its "M'm! M'm! Good!" jingle. Soup demand was so high that the company had to build a new plant in Chicago in 1930.

Today, Campbell's soup remains one of the best-known and least-expensive meal items in the grocery store. Unlike many other products, it faces little threat from cheaper, private-label brands.

Yet the going has been tougher in this economic cycle, thanks to increased competition from other food products and the intensity of the recession. Campbell surprised Wall Street by announcing that profits in the second quarter ended Feb. 1 fell 15% from a year earlier, partly because some supermarkets had reduced inventories to cut costs.

The volume of canned soup sold by retailers including Wal-Mart Stores Inc. was flat in 2008, according to Nielsen Co. data provided by Bernstein Research. Some analysts attribute that to a combination of higher prices, warmer weather in some areas and consumers emptying out their pantries.

Ms. Read decided in the fall to set a \$150 budget for the big grocery shopping trips she makes every two to three weeks -- something she'd never done before. She also set a \$50 limit for interim stops to pick up items like milk and bread. Previously, she'd spent upwards of \$180 during her big grocery visits and between \$90 and \$150 on other in-between and discretionary items.

The Reads also scaled back their restaurant visits to three times a week. Rather than shopping at Talbots, her favorite clothing store, Ms. Read started going to a cheaper Talbots outlet store. She and her husband bumped up their contributions to their retirement accounts and to their general savings account, to give themselves a bigger cushion in the event of a job loss.

Campbell's was hearing similar tales of caution from other consumers. In an attempt to boost sales last fall, it started offering 10 cans of condensed soup for \$10 in some supermarkets.

The company also launched ads touting its soups as inexpensive meals, a departure from previous campaigns playing up quality. One ad showed a lineup of five condensed soups, calling it the "original dollar menu," a play on McDonald's Corp.'s popular promotion.

Around the same time, other food companies jumped on the "value" bandwagon. ConAgra Foods Inc., which hadn't advertised its 55-year-old Banquet frozen dinners in more than a decade, launched an ad campaign last fall around a new line of Banquet meals priced at \$1.50. Kraft began advertising its low-cost Kool-Aid powdered beverages on national radio for the first time in 11 years.

By early this year, Campbell's research was revealing even more-marked shifts in consumers' behavior. Some had begun doing their grocery shopping only on the 1st and 15th of the month -- traditional paydays. They were sticking religiously to shopping lists, avoiding impulse purchases and doing their best to completely empty their pantries before restocking. As they dined out less, they clamored for recipes: Visitors to Campbell's Web site in February printed 430,000 recipes, up 29% from February 2008.

A few other hard realities surfaced. While people hunted for bargains, many seemed to reject the buy-in-bulk patterns of the past. The company, for instance, ended its 10-cans-for-\$10 deal recently because consumers weren't biting.

"People don't have \$10 to spend on one item anymore," says Mike Salzberg, president of sales for Campbell Soup. "They might have \$20, and they need to buy all of their groceries and household items with that."

Several weeks ago the company started offering discounts on smaller soup purchases, such as single cans of soup for \$1 in some stores and two cans for \$3 in others.

When Campbell returned to the Reads' home last month, the company found a family that, like many others, was in serious economic retreat. Ms. Read was "noticeably preparing and expecting for the worst to come," Mr. Vila recalls. "And it's not just her. I think she's representative of something larger out there; people have gone from having a defensive posture to an offensive posture."

During the visit, Ms. Read said she didn't think her job was at risk, but was worried about her husband's. "His job could be gone in a heartbeat," she said. "We have to watch what we're doing."

As a result, her family has cut restaurant visits to twice a week, maximum, from three. "I don't do any nonsense shopping anymore," she said. "I have a list I'm sticking to now and I've stopped buying extras, like the bakery cookies and some of the prepared food (supermarket chain) Wegman's has, like salmon filets. I can make that on my own."

To keep and attract consumers like Ms. Read, Campbell has revamped old recipes and created new, simpler ones that call for ingredients consumers typically stock in their freezers or pantries -- things like ground beef, cheese and pasta. The company also is developing slightly trickier recipes for consumers who can't afford to dine out but who

want to create restaurant-like food at home, such as Pork with Roasted Peppers and Potatoes.

Whatever they're cooking, shoppers are using more coupons to buy ingredients. Campbell says it has seen a 20% increase in total coupon redemptions in the last year. The company has also noted a shift in how people use coupons. Rather than clipping them for things they were planning to buy, more consumers now are filling their carts with discounted items, Mr. Salzberg says.

So Campbell has gone so far as to tailor its in-store displays around products offered with coupons. At some Meijer Inc. supermarkets, for example, displays contain all the ingredients needed to make Campbell's Cheesy Chicken and Rice Casserole: Campbell's cream of chicken soup, Kraft shredded cheddar cheese and Uncle Ben's rice and chicken. All are highlighted in the store's sales circular. Campbell has done similar displays with other retailers, including Food Lion LLC and Safeway Inc.

These days, Ms. Read is taking fewer risks in the kitchen. Instead, she plays a game she calls "kitchen survivor," in which she devises a menu solely from items on hand. If a recipe calls for an ingredient she doesn't have, she'll either omit it or substitute. She recently made a baked-artichoke dish to take to a party; the recipe called for hot sauce she didn't have, so she left it out.

On his latest visit to the Read home, Campbell's Mr. Vila gave Ms. Read a new Campbell recipe named Beef Taco Skillet, calling for tomato soup, ground beef and cheddar cheese. As she browned the beef, she told Mr. Vila, "I did not have to go out and buy crazy ingredients. It's pretty much what I had in my cabinet already."

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