CONSUMER INSIGHTS

May 2018

CONSUMER FOCUS: BUYING BRITISH

Following the EU referendum in 2016, there has been much speculation about what Brexit would mean for the UK. AHDB's Horizon series has focused on a range of Brexit issues and their potential impact on agriculture, from changes to farming support to shifting trade relationships. Similarly, the knock-on impact could affect domestic food production, food imports and prices to consumers.

While the economy has sustained itself better than expected since the referendum result, the volume of retail sales was down in the three months to March 2018, compared to the previous quarter. Additionally, in 2017 we saw grocery inflation outstripping wage growth, leading to a return to negative real earnings; a trend that has only recently been reversed (ONS – February 2018). All of this makes the economic environment in which retailers are operating exceptionally challenging.

Within this report, we investigate whether the EU referendum is likely to deliver a boost for domestic growers and producers on the back of improved consumer sentiment towards buying British. We look at how shopper behaviour may be impacted going forward and look to see if there is any evidence of change so far. The focus of our analysis is the UK domestic market but we do touch on the value of 'Britishness' in key overseas export markets. This is a topic that AHDB has reviewed in depth in our latest Horizon report titled – 'International Consumer Buying Behaviour', available at **ahdb.org.uk/brexit**

BACKGROUND

The EU is by far the UK's largest trading partner in food and drink. In 2016, some 30 per cent of the food and drink consumed in the UK came from the EU (GOV.UK 2016), while some 71 per cent of our food and drink exports went to the EU (FDF 2016). Leaving the EU may create many challenges, including developing new approaches to regulation, establishing trade agreements, sourcing labour and avoiding supply chain disruption. However, it will also provide opportunities, potentially including a growth in the market for British food and farming products at home and abroad.

Some have suggested that home producers will benefit, as consumers will feel more patriotic when it comes to their purchase behaviour. Understanding the importance of British/locally produced goods to domestic consumers following the EU referendum is key to identifying the opportunities and challenges for the food industry.

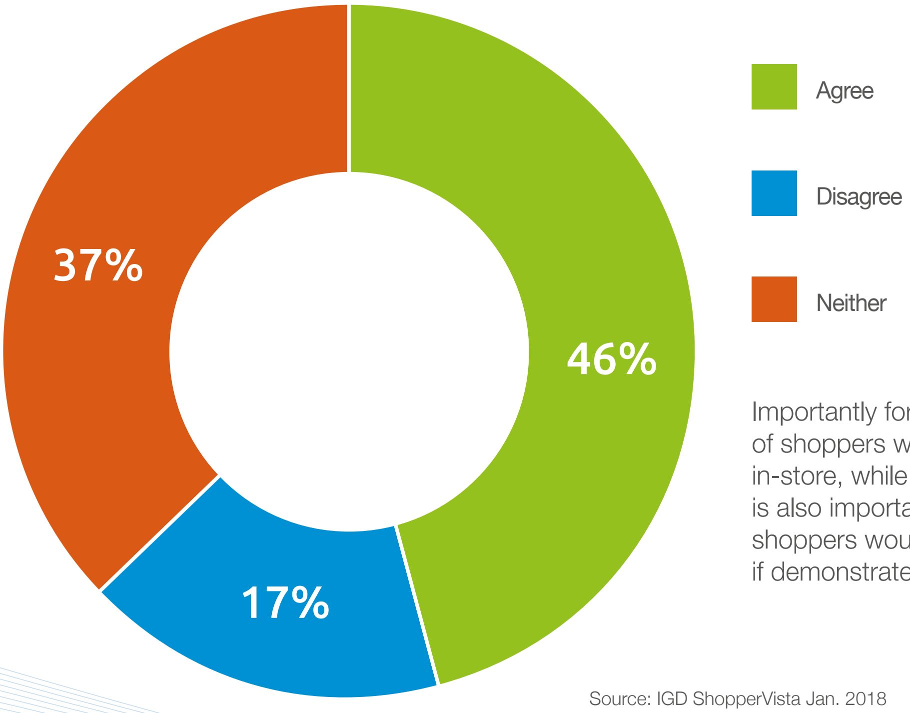
- **What does British actually mean to consumers and are there any generational differences?**
- **Is simply stating that something is British enough of an incentive to purchase?**

This report looks at evidence from a number of sources to determine its key findings. The report starts by looking at consumer sentiment at home towards buying British and if there are any generational differences. It then looks at the role of price and quality in shopper decisions, how important is 'Britishness' abroad, before finally looking to see if there is any data so far supporting a drive to buy more British post-Brexit.

SO HOW IMPORTANT IS IT TO BUY BRITISH POST-BREXIT?

Recent research from IGD shows that just under a half of shoppers state that it has become more important to buy products that support local or British producers now the UK is leaving the EU. The focus on patriotism has changed little compared to just over a year ago (45% in Dec '16).

More important to buy British food now the UK is leaving the EU

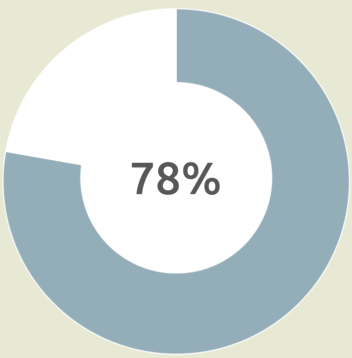


Importantly for the industry, almost 70 per cent of shoppers want to see more British food in-store, while demonstrating value for money is also important, as almost three in four shoppers would buy more British food, if demonstrated it was better value.

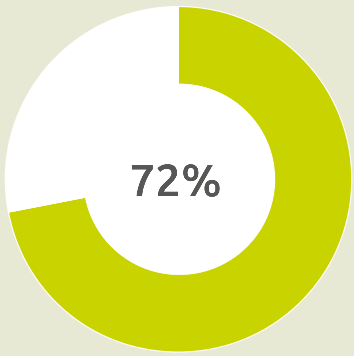
Source: IGD ShopperVista Jan. 2018

Importance of British

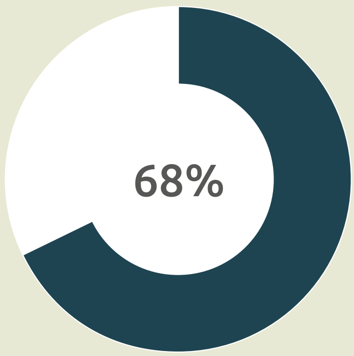
% UK Shoppers that agree…



"Britain needs to be more self-sufficient in food and not rely on imports as much"



"I would buy more British food if it was better value for money"

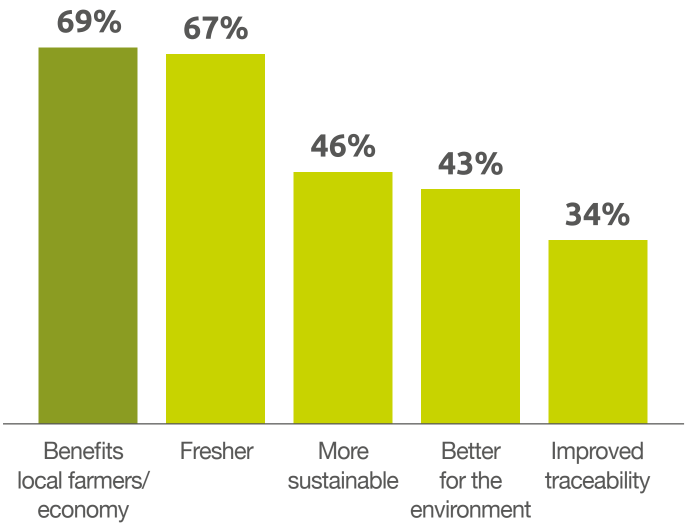


"Supermarkets should focus more on selling food produced by British farmers"

Source: IGD ShopperVista Jan. 2018

However, also important to note is that, even when shoppers do favour buying British, it is not obvious they are motivated by patriotism. Some would argue that 'British' is actually shorthand for other product/production attributes that shoppers value (eg local benefits, fresh, authentic, sustainable).

UK: What benefits do consumers associate with local or locally produced products



Source: GlobalData's 2017 Q4 Global Consumer Survey

Top categories where shoppers associate British with higher quality

Rank	Category	Percentage who agree	Category value (£bn*)
1.	Fresh produce	58	12.1
2.	Fresh meat and fish	54	9.9
3.	Dairy	37	9.4

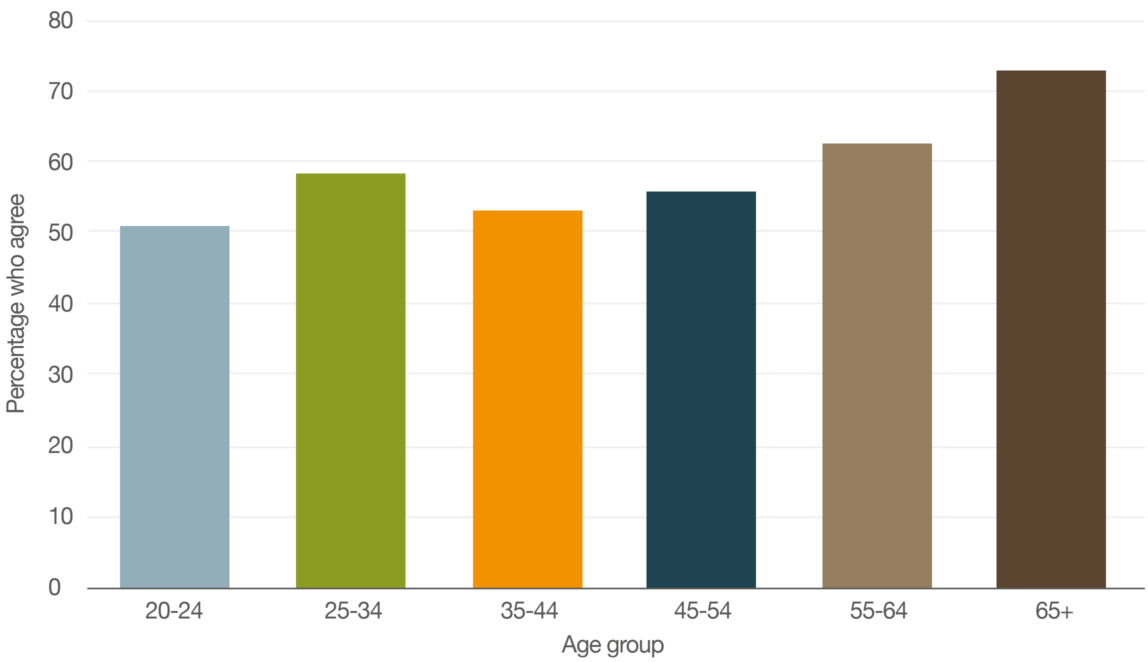
Source: IGD ShopperVista – Oct. 2016.
* Source for '£bn': Kantar Worldpanel 52 w/e 22 April 18

According to IGD, there is a strong association between 'British' and 'quality' in some key agricultural categories. Indeed, 58 per cent of shoppers agreed that British or local helps to identify products as higher quality in Fresh produce – the highest of the major categories, followed closely by Fresh meat and fish, and Dairy.

IS THERE A GENERATIONAL DIVIDE IN ATTITUDES?

According to Mintel research, there is wide variation between shopper attitudes, especially shoppers from different generations, with younger shoppers less likely to find 'Britishness' compelling as a driver of purchase. The irony here is that while 55+ year-olds state they are more prone to buying British, according to IGD, this age group is also most concerned about rising food prices and so – while their support for buying British is clear – it is not at any price!

I try to buy British food whenever I can

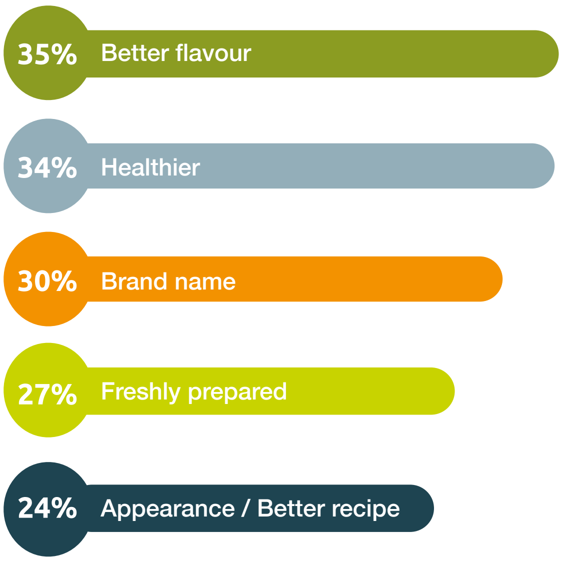


Source: Mintel UK Food Tracker Nov. 2017

One of the opportunities going forward will be how to sell brand 'Britain' to younger consumers, as simply communicating that the produce is British/local will not be enough. The key is to understand what the most important purchase drivers are for this key age group.

Research done by IGD in 2017 on post-millennials (shoppers aged 18–25) revealed that this influential group of shoppers were more likely to equate attributes such as health as better quality. One solution, therefore, may be to better educate these consumers about the most relevant quality cues that apply to your products.

Top attributes that denote higher quality (18–25 age group)



Top attributes that denote higher quality (26+ age group)

Source: IGD ShopperVista 2017

Understanding which health factors are important to these shoppers will be key, as will understanding which media to best do this through. Post-millennials, for example, have always lived in a connected world. They have technology at their fingertips in the form of smartphones and have a number of platforms by which they communicate and so using social media to reach these consumers will be vital.

Convenience/saving time is also important to this age group and so offering convenient solutions will also be important. The majority of post-millennials do not plan their evening meals, providing opportunities to inspire these shoppers with easy meal solutions and influence them both pre-shop and in-store. They also love new flavours and innovation.

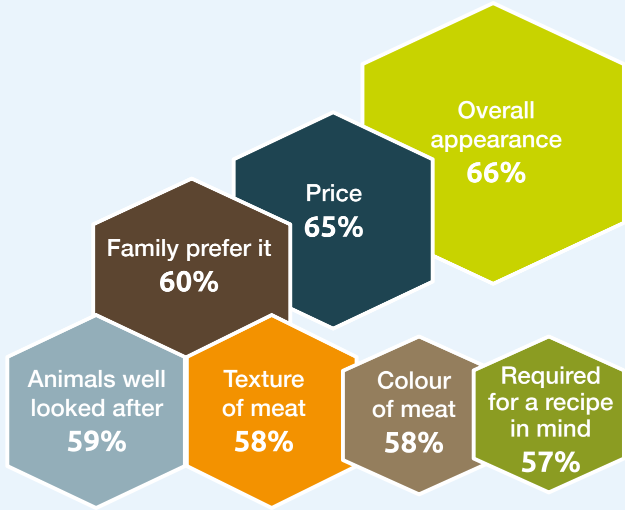
CAN WE TAKE THESE SURVEYS AT FACE VALUE?

As with all research of this type, it is important to recognise there are differences between what consumers say they would do and how they actually behave in-store, especially when price is such a key purchase driver. As we saw earlier, it is the older groups that say they try to buy British whenever they can. However, 74 per cent of 55+ year-olds say that increasing food prices were their biggest concern when it came to their financial circumstances (IGD Jan. 2018), therefore, any positive sentiment towards buying British will only count for so much as shoppers try to manage ever-tighter household budgets.

HOW IMPORTANT IS PRICE AS A DRIVER OF CHOICE?

As mentioned earlier, real earnings started to fall in the spring of 2017, though they have recovered of late. Household spending grew by just 1.7 per cent in 2017, the slowest annual growth rate since 2012. This would suggest that shoppers will increasingly have a strong sense of caution around all purchase decisions, especially around products that have a significant price premium. In such an environment, the role of price would appear to become even more important.

Most important factors when choosing meat



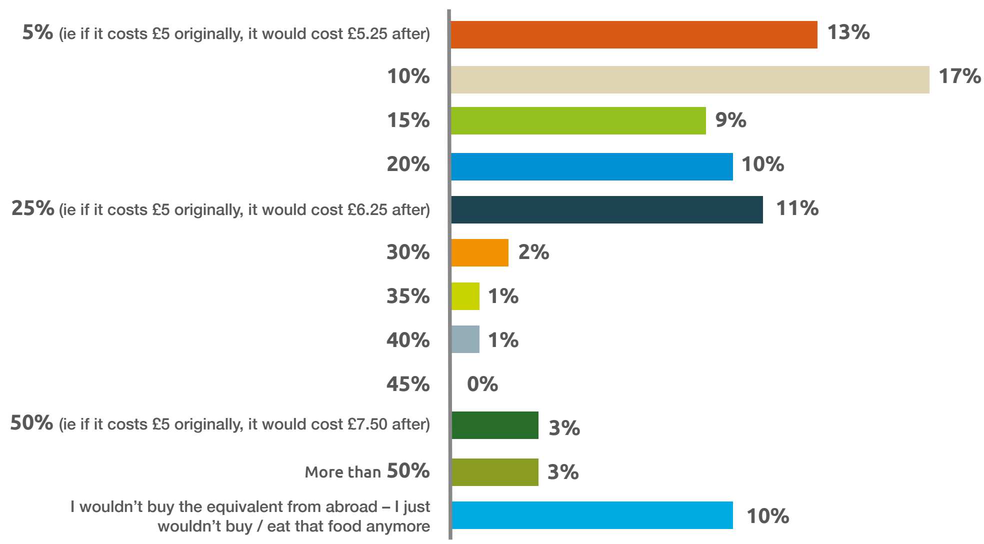
Source: AHDB/YouGov's Consumer Tracker Aug. 2017

Price is a key purchase consideration and so remaining competitive will be crucial for home producers and growers because, if prices rise too much, consumers will simply look for cheaper alternatives from abroad.

So, how much would British food prices need to increase before consumers switched to cheaper alternatives from abroad?

Evidence would suggest that a relatively small increase in price would trigger a change in buying behaviour. For example, research conducted by YouGov suggested that a 10 per cent increase in price would see 30 per cent of shoppers plump for a lower priced import, with a further 10 per cent ditching the item altogether rather than opt for an imported equivalent.

Q. If British food was to go up in price, how much would the price have to increase before you would stop buying British and instead buy the equivalent from abroad?

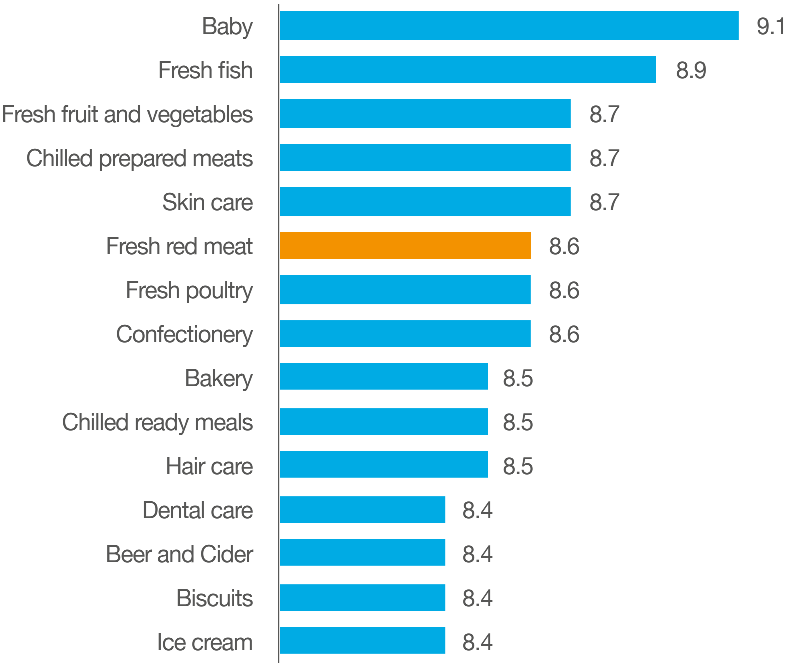


Source: YouGov Profiles 2017

WHERE DOES QUALITY FIT IN?

While price is important, one must not underestimate the role of quality for shoppers seeking better value in the current economic climate. According to IGD ShopperVista research, quality has more influence in fresh red meat than the average grocery category. It is also more important for fresh fruit and vegetables, and chilled prepared meats.

Top categories – "quality is important in my purchase decision" – mean score out of 10



Category average = 8.4

Source: IGD ShopperVista – Jul. 2017.
Q. How important were the following attributes in your selection process, where 1 is very low and 10 is very high?

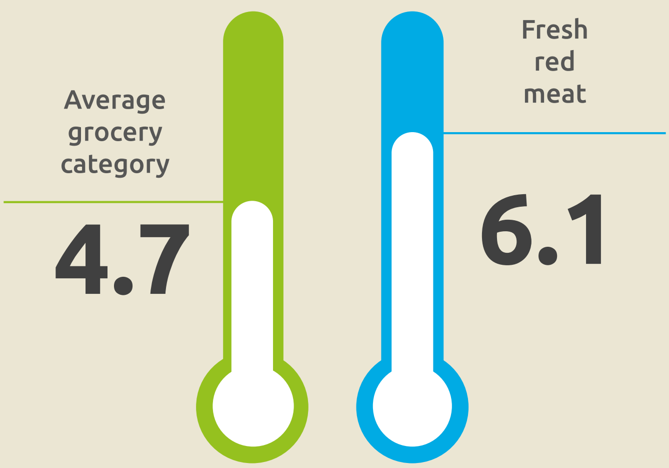
How consumers judge quality can vary from shopper to shopper. Uncovering what quality means to shoppers will help unlock further growth opportunities.

Previous research by IGD found that better flavour, freshly prepared, the brand name and British/local were the most popular attributes to identify higher quality in the food and drink sector.

Considering how best to communicate quality credentials along the whole path to purchase is therefore critical. Fresh red meat also over indexes in terms of those saying it is worth paying a little extra to get better quality, thus representing opportunities to encourage trading up.

The ethical credentials of fresh red meat should also not be underestimated as it ranks as the highest category in terms of the importance of a product being ethically produced in the purchase decision. UK producers should, therefore, be looking for opportunities to communicate the ethical credentials of their products to educate and engage with shoppers.

Importance of a product being ethically produced in purchase decision – mean score out of 10



Source: IGD ShopperVista July 2017

HOW IMPORTANT IS 'BRITISHNESS' FOR CONSUMERS OUTSIDE THE UK?

The value of 'Britishness' was recently researched by AHDB, the results of which are featured in the latest edition of the Horizon reports, entitled '**International Consumer Buying Behaviour**'. The research looked to understand the reaction to a British proposition across key international markets with consumer perception at the core. Regardless of the market, there are some fundamentals when promoting a product and knowing your consumer is at the heart of this. Consumers across the globe have different views on what is important to them and what clues and information they look for in making a purchase choice.

A good starting point for arriving at an understanding of what is important to consumers is to ask what motivates them. Key themes that came through touched on quality, price, health and food safety (the latter particularly for China/Japan).

Quality was the most important factor in the majority of countries researched. However, quality can mean different things to people across countries. To add further complexity, the definition of quality can also vary depending on the food category examined. Quality and price feature highly for all food categories researched, although food safety is more of a concern when buying meat, especially in China. Purchase decisions for dairy products link heavily to the 'freshness' of a product, with the expiration date much more frequently mentioned than the other categories researched. It is within the fruit and vegetables category where appearance scored higher than in other categories, that consumers make strong judgement on the value of the product from the physical appearance. The packaging of the product, therefore, provides a vital opportunity to communicate to consumers, as does trade-based communication, around the criteria that are deemed most important to the country in question.

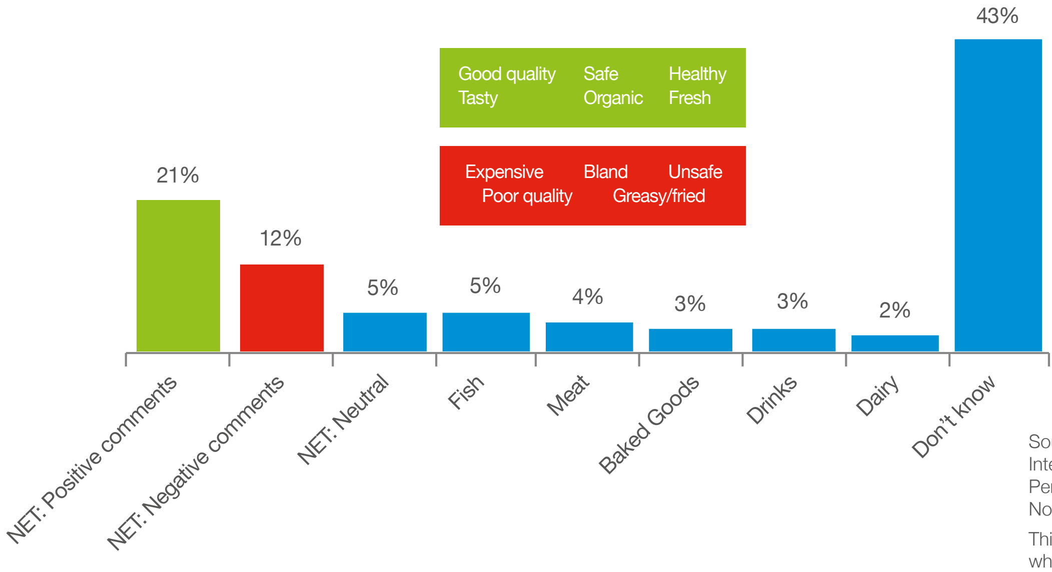
The consumer research looked to capture the reaction to the British proposition in key global markets. British origin products are still very niche in export markets; report findings highlighted that many consumers have not had direct exposure to British food products and, therefore, have not had the opportunity to build a firm view in this respect.

The two most common priorities when choosing food

Source: AHDB/Red Tractor – ICM International Consumer Perceptions Research August 2017

What is your most important priority when choosing the food you buy?

What does ‘British food’ make you think of?



Source: AHDB/ICM – International Consumer Perceptions Research November 2017

Thinking about British food, what words and phrases come to mind?

In summary, the research found consumer awareness and exposure to British products abroad remain low. Therefore, just featuring the Union Jack on products will provide little cut-through. The key is to better understand what are the main purchase drivers for consumers overseas? This will vary from country to country and so a one-size-fits-all approach will not work.

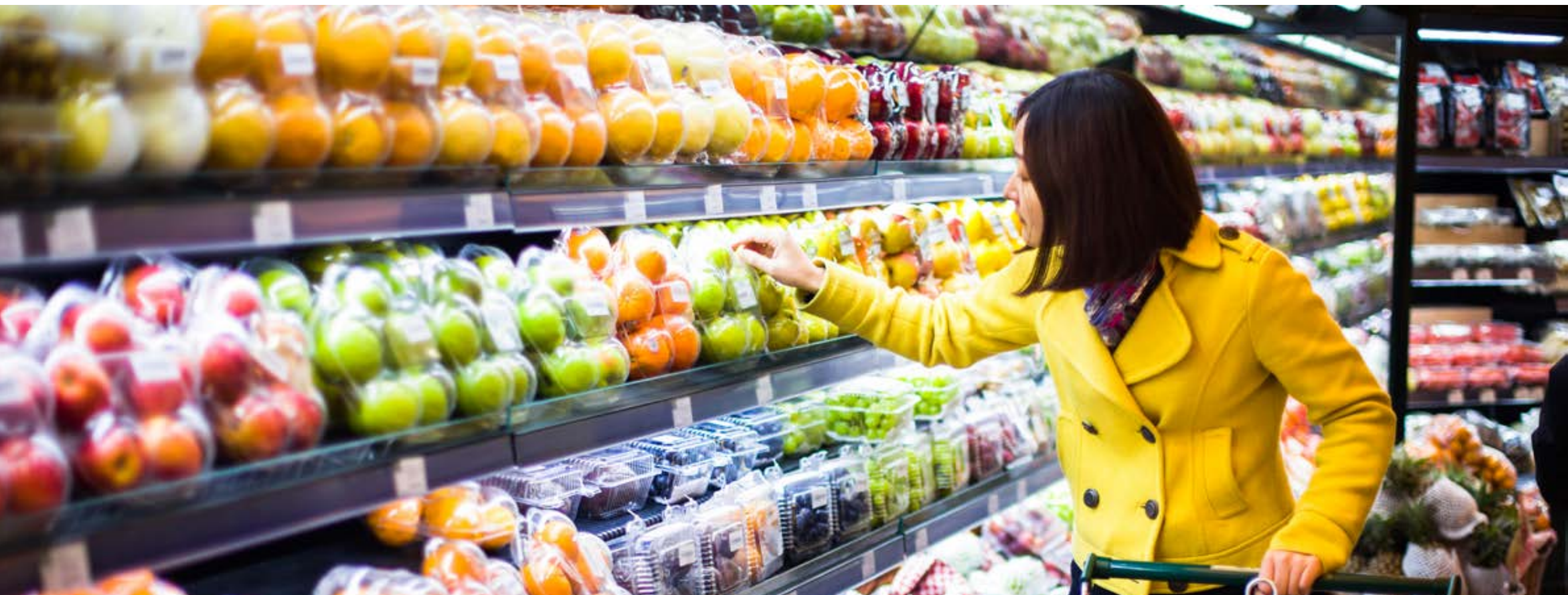
SO HAS BREXIT IMPACTED UK CONSUMER BEHAVIOUR SO FAR?

Having looked in detail at consumer attitudes to-date to buying British, we have seen that sentiment would appear to be positive. However, as mentioned previously, what consumers say they will do does not always translate to purchase behaviour in-store. Therefore, one of the key questions is – have we have seen any change in behaviour so far and have we seen any signs of the impact of Brexit, in terms of retail price movements?

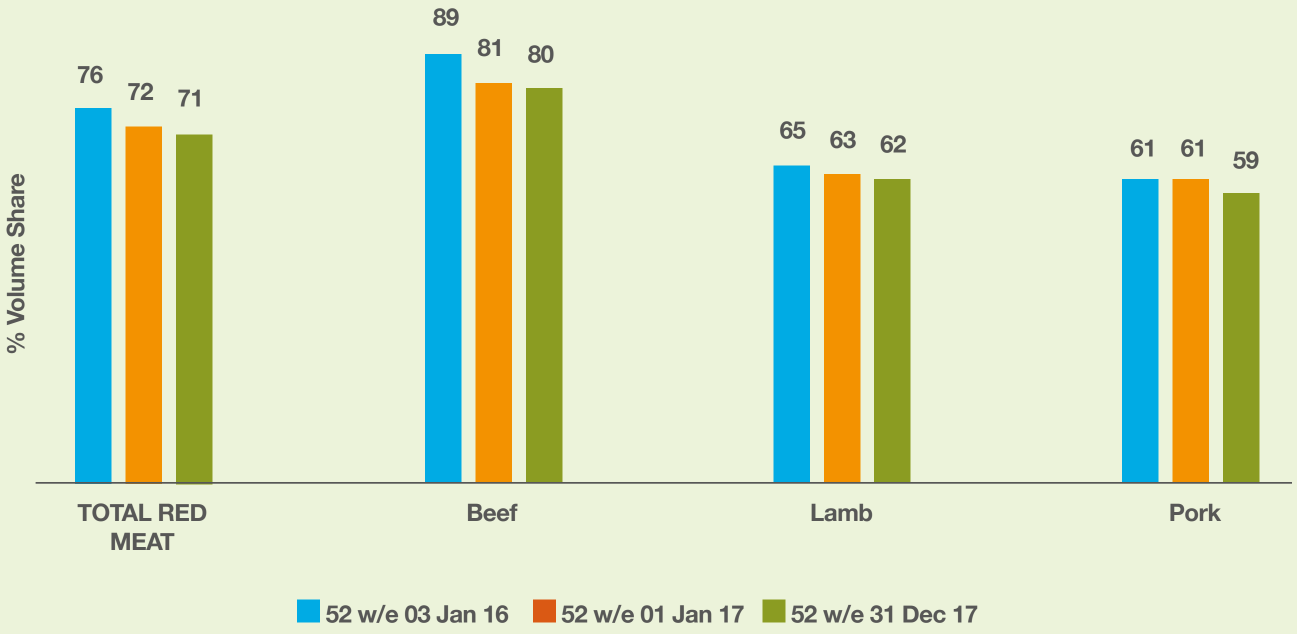
DEMAND FOR BRITISH

As yet, there is little tangible evidence of any benefit for home producers or the domestic market since the EU referendum. The price of raw materials and transport has affected many categories of late and so identifying categories where British brands have grown post-Brexit is not easy, especially where the impact can be tied to that alone.

Looking at Kantar Worldpanel country of origin data, we see that the percentage of home-produced red meat sold has, if anything, decreased since the referendum, suggesting that, as yet, there has not been any boost for domestic meat producers.



Home Produced – Primary Fresh Red Meat Share



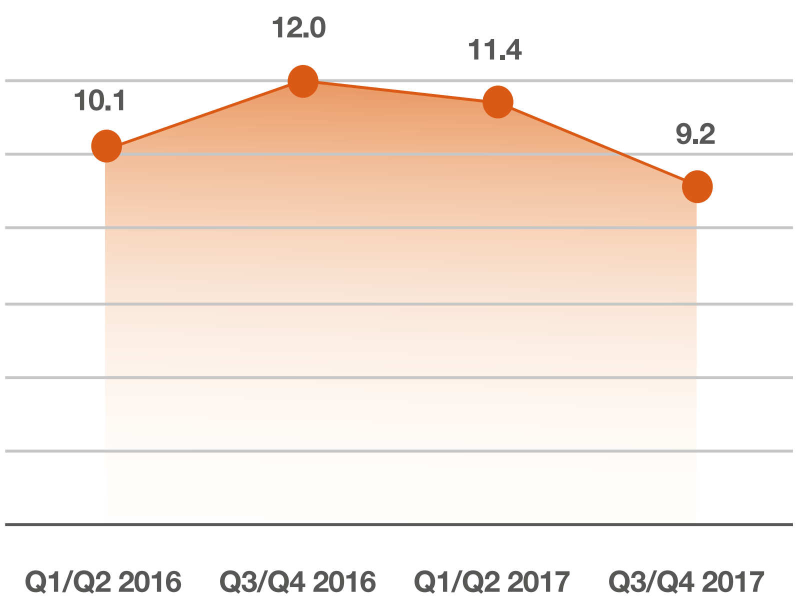
Source: Kantar Worldpanel

NEW PRODUCT LAUNCHES

Another way of understanding whether ‘Britishness’ is now seen as carrying added value with consumers is to look at new product launches in the food market to see if manufacturers view it as a selling point and, therefore, feature it more on products.

Exposure to products featuring their ‘British’ credentials is not new to consumers, although one can be forgiven for thinking there would be a surge in new product launches shouting about their British credentials. According to Mintel data, while there certainly appeared to be an initial surge in British launches, this has now fallen back. Currently, the share of new product food launches with some association to British stands at just over nine per cent compared with a high in the last two years of 12 per cent in the period immediately after the referendum.

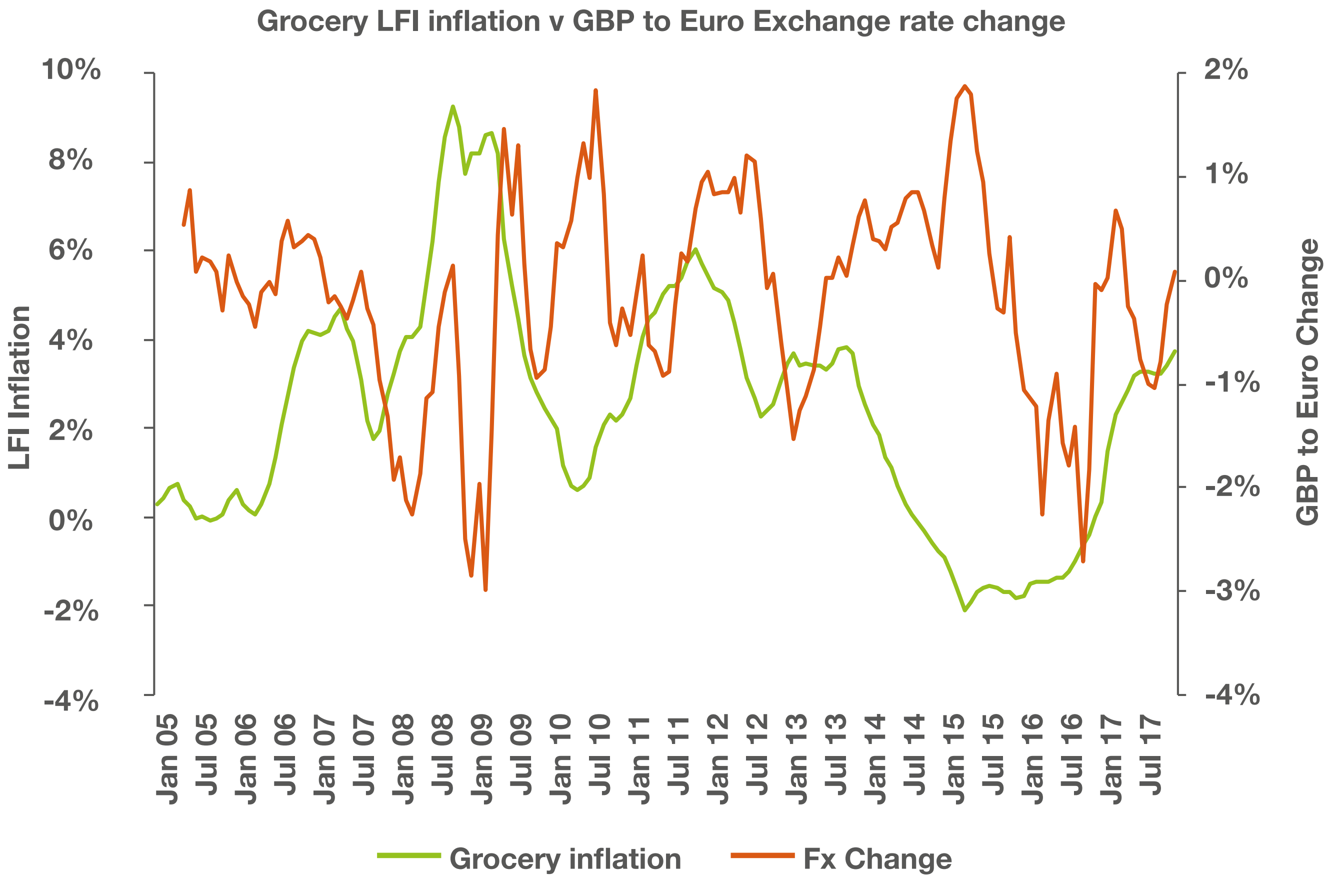
‘British’ Food NPD Share of Total UK Food NPD



Source: Mintel

GROCERY INFLATION

A look back in time reveals an inverse correlation between the strength of the pound and grocery inflation, with prices rising when sterling becomes weaker due to the higher cost of importing raw materials and goods. With food and drink from the EU accounting for 30 per cent of UK consumption in 2016, then the relationship with the euro is particularly important.



Source: Kantar Worldpanel Total Grocery and European Central Bank

While sterling remained subdued against the euro after the referendum, prices only began to rise at the start of 2017 after a price war had held prices down in the previous two years. According to Kantar Worldpanel, grocery inflation stood at +2.9 per cent in the quarter ending 25 February 2018, with prices rising fastest in markets such as butter, fresh fish and fresh pork, although they did fall in a few categories, including fresh poultry.

However, other factors are also at play, including a reduction in the levels of promotional activity and a movement to more premium products. With prices increasing, shoppers have developed coping strategies. According to Kantar data, in the past, people traded down in quality tiers instead of buying less. Any continuation in grocery inflation would mean that the focus on price would become greater in the eyes of the shopper.

So what does it mean for British agriculture?

The evidence to-date serves only to highlight the uncertainty of what might happen in the future, as what consumers say they will do does not always match what they actually do. To-date there is little to suggest that a wave of patriotism has helped bolster sales of all things British – the evidence so far suggests that ‘Britishness’ on its own won’t drive sales.

Sentiment towards buying British remains fairly strong, although it has not changed a great deal over the last year. That said, one should remember that this is against a backdrop of where, according to IGD, almost four-fifths of shoppers stated that rising living costs were of concern to them – the highest of all the concerns expressed. With real incomes only recently returning to marginal growth, the focus on price and, indeed, quality is likely to intensify in the foreseeable future.

While the increased focus on quality should benefit British farmers, given that consumers may not be interested in perceived lower quality imports, the price differential will be key. In addition to quality, industry needs to focus on promoting the very things that consumers are looking for in British food and drink, namely, how it supports domestic farmers and the wider economy. The environmental impact should also not be underestimated, as being less reliant on imports will mean fewer food miles, another potential selling point for buying British.

The UK shopper is price conscious and increasingly so, given the current economic climate is putting pressure on household budgets. This means that maintaining price competitiveness will be key for the UK agricultural sector. In a Brexit context, shopper support for buying British food appears fairly strong, although not at any price, for if prices rise by even a relatively small amount, shoppers will simply look for cheaper alternatives from abroad. Finally, understanding your customer is vital. Simply featuring the Union Jack on products is not enough and so industry needs to demonstrate the other attributes they provide to meet consumer requirements around quality, provenance, supporting domestic/local farming and so forth.

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Sukhvinder works within the Retail Insight team at AHDB and has been with AHDB for more than four years. His current role at AHDB focuses on retailer trends in terms of sales and the key drivers of performance for both the retail sector and foodservice. The Retail team team works closely with the Consumer Insight team which actively tracks, monitors and evaluates consumer behaviour.

Sukhvinder has also worked at Nielsen and IRI in the client service teams and managed a number of high-profile FMCG clients including Heineken UK and Mars.

AHDB's Consumer Insight team actively tracks, monitors and evaluates consumer behaviour, reporting on the latest consumer trends and picking out what they mean for the industry and agriculture.

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