



Retail Best Practices Webinar Q&A

What is the expectation across the higher-priced and expanding Specialty Mushroom sector?

There was only one specialty type big enough to warrant good quality price/volume impact data; that was sliced shiitake. Rick included this in his breakout as an indication for the rest of specialty. That said, in general, we are not seeing a pull away from organic nor specialty. In fact, we are seeing units far above 2019 levels.

Do we know anything about price elasticity in specialty?

Rick addressed this in the webinar, and we note that lion's mane, maitake, etc. are too small in terms of sales in the traditional channels to accurately break out. But portabella and shiitake will provide some indication.

What lessons from the 2008 contraction can we infer now?

Some lessons apply but there are major differences as well. Inflation was much more moderate (in groceries and in life) in 2008. Additionally, many shoppers went through very specific steps in their savings process then but are already applying those lessons learned now. So, we're seeing a much faster impact in some areas.

Can we expect holiday spending to remain strong and if so, when do we expect to see flat or negative growth at retail?

The patterns are following prior year trends. The Council's [last quad week report](#) showed a bump in volume vs the quad week prior. That's something we see year after year. However, the increase was lower than historically seen. A simple forecasting and trending model is included in the quad week data and analysis the Council produces every four weeks.

The pandemic brought lots of retail to the sector. Part of that was stay-at-home and part of that was driven by people looking to maximize healthy, immune-enhancing food intake. Is there any data to tell us if the trend towards healthy, antioxidant-rich foods is a continued one as we move out of pandemic thinking?



Absolutely. Health and well-being (both physical health and emotional well-being) were strong growth drivers pre-pandemic and only strengthened. Mushrooms fall in many of the popular buckets: sustainable foods; nutritious foods, Keto friendly, plant-based, gluten free, you name it. Continued focus on marketing mushrooms as delicious, nutritious and sustainable with economical as the cherry on top remain very popular sales drivers.

What do we know about “conventional” large retail grocers vs. boutique markets (Whole Foods, etc.)?

The winning channels right now across all foods, as well as all fresh categories, are Club, Walmart and online. Traditional grocery and specialty are losing a little ground as people are looking for the savings shortcut and shop in channels with a favorable value perception. That said, sales in traditional is the biggest so it’s a matter of size and growth.

You mentioned how mushrooms compete with mushrooms, and we had a question regarding when pricing. Does it make sense to analyze the category entry item like eight-ounce whole white mushrooms for the mushroom category?

Yes, and it does. And a lot of that interaction really puts the power back in your hands. If you are competing just with mushrooms, you can use it to drive penetration or get people into the category. You can also use to protect your profitability. The mix of items can be used to understand the more profitable items. If I adjust my price, I can push consumers into the more profitable items. Those may be your larger items and may work against the penetration. It has to be a delicate balance between getting people into the category versus maximizing my profitability.

And along those same lines you talked about how mushrooms compete with mushroom, well, let's compare apples to apples or maybe not apples to apples, but apples to pears. If the price of apples goes up, does that affect pears? What is an example of an interaction like that?

We do see that in categories that are highly substitutable. I'll take luncheon meat for example. Luncheon meat can be often substituted with canned ham, sausage, bacon or some of the breakfast meats that are out there. Consumers will shop across categories to substitute those items when they are expensive.



But things like mushrooms or white gallon milk, if they're not that substitutable, then you are not going to see those cross-elastic items.

And that's what we saw. We saw very few cross elasticities with tomatoes, potatoes, and with lettuce. I think that's a finding in and of itself. When consumers are shopping for mushrooms, they're shopping for mushrooms.

Instead of lowering the price of say, sliced organic mushrooms in order to not violate the gap, would it be wise to increase the price of the whole white mushrooms?

Yes, and again, the power falls to you because both sides of all those price gaps that we looked at are all mushrooms. You can increase the price to make that complaint. You can use the gap to push people into the more margin accretive item so that you are getting more profitability at the end of the day. That's what's nice about the mushrooms competing with mushrooms, is that you now control both sides of the gap.

You know that's not always true. When Oscar Myers is competing with Hormel Bacon, Oscar Myer only controls the right-hand side of the equation. They can't understand what Hormel's going to do. They have to be very reactive and, and very cautious in the way in which they approach those price gaps. That's not true here. You control both sides of the equation.

As an inelastic item, don't consumers get accustomed to increased pricing quickly, so any volume decline could fade?

Yes, that's true. And think about milk, milk prices change every two weeks. As the commodity market changes, so does the price of milk. Buyers get made aware of that on a two-week basis. And you will see those white tags change pretty frequently. So yes, for inelastic items, that's why my first recommendation was to pass along the commodities inflation. Do not hold your breath. Do not compress the margin on inelastic items. You will see volume declines, but those will fade faster, especially if you have a higher purchase cycle with your loyals, or the folks that buy more regularly. That's going to fade and that reference price that they have in their mind, of \$2.99 for an eight-ounce white conventional, they will quickly adjust to \$3.29 when we take that price up there.



You mentioned something about mushrooms having little promotional pricing power.

Yes. I think that has to do with two things. If I'm going into the store to buy mushrooms and there just happens to be a yellow tag, then congratulations, you just gave me the extra 70 cents to buy mushrooms. I was still going to buy them and I might get the occasional buyer takes advantage of it and puts back their cherry tomatoes and gets mushrooms.

But I think with the vast majority of people, you're just subsidizing with those yellow tags. And we saw that there's a lower price response on mushrooms on the yellow tag than there is on the white tag. That typically only happens when a brand overpromotes.

I did a lot of work in the coffee industry. When coffee would promote 52 weeks out of the year, they lost all their promotional pricing power. They had it when they started, but over-promotion really drove those promotional responses. I don't think that's the case here. You haven't over-promoted. I think it's just a matter of the consumer need being kind of singular and that the trade now is going to reward or subsidize those buyers.

Are we able to have the data available Nationally, by region by sub-category by item so we can do a further analysis? Retail, club and foodservice.

IRI can share the model results in the form of a topline file, but since we run this analysis at the store/week level, provision of that data would violate our retailer agreements. Furthermore, this analysis does not include the foodservice class of trade. Although, with IRI's merger with The NPD Group, this could be a future-state for pricing analytics as we incorporate CREST data into the IRI ecosystem of data.

Since mushrooms don't have a trade organization that can influence supply or price, what is the best way mushroom growers can use this data?

Retailer education on what drives sales in terms of price points, merchandising vehicles, relative price points, etc. will help to create win/win scenarios with the growers and their retail customers. Our recommendation would be to use these materials to develop optimal



promotional plans and share them with the retailer with commentary on why certain aspects were selected.

Why is perceived inflation so high? Is it common for perceived inflation to be higher than CPI? Is perceived inflation more impactful on shopping behavior than actual inflation?

Historically consumer packaged-goods passed along list price increases annually or even less frequently leading consumers to have a firm grasp on a product’s “reference price”. Over the past 12-18 months many products have experienced multiple shelf price changes and consumers ability to keep pace with this has lagged significantly. As a result, we have higher level of perceived inflation than actual measured price inflation. Additionally, investments in promotions are down nearly 25% versus pre-pandemic levels. Some of this is due to supply chain constraints and some is due to manufacturers taking a more caution approach to trade allocation.

Why is coffee on both sides of the price elasticity continuum?

With coffee, the category, tends to be more highly elastic because of the commoditized nature of this consumer offering. But some branded coffees that have high equity and shopper loyalty (potentially reinforced by its foodservice presence) have insulated themselves from the impacts of price change. Below are the results of a meta-analysis IRI has conducted on drivers/mitigators of price response:

<u>Brand/Product Attribute</u>	Elasticity	
	<u>More elastic</u>	<u>Less elastic</u>
<i>Volume “sensitivity”</i>	←	→
Differentiation	Low	High
Emotional Need/Benefit	Few	Many
Brand Equity	Low	High
Loyalty	Low	High
Purchase Frequency	Low	High
Level of Involvement	Low	High
Advertising Investment	Low	High
Competitors	Many	Few
Trade Promotion	High	Low



From elasticities can we accurately guess consumer preferences? Or is price laddering the best way to figure out consumer preferences? How can growers use this information on price laddering and regional consumer preferences to optimize their profit?

Preference has a slightly different meaning in consumer packaged-goods research. We use preference, incrementality and transferred demand at a category level to understand how to build the most productive shelf at retail. IRI does this for Category Management teams across numerous categories. The work we've conducted here is NOT assortment orientated, but instead focusing on consumer response to pricing and trade stimuli. Price gaps give us the best line of sight for how consumer expect pricing to unfold at shelf and what they are willing to pay for product attributes or value-added benefits.

There are a few places where price hikes drive customers to more expensive categories like sliced or 16 oz. How can we take that effect into consideration when thinking about raising the price on 8 oz conventional packages? Could this effect just be coming into alignment with price gaps?

Yes. Cross Price Elasticities and Price Gaps will estimate the level of price driven sale transfer we'd expect with disproportionate price actions on product lines.

Given that there are hundreds of different combinations of the 18 groups of mushrooms studied here, it wouldn't be possible to be compliant with every possible gap. How do we identify the gaps that are the most important?

Great point! Gap and threshold management does require prioritization in order to be executed parsimoniously. The three criteria we like to overlay on the results are: Magnitude or sales impact, considering % impact as well as size of the product. Second would be profitability and how we use gap management to persuade consumers to buy our more margin accretive items. Lastly, we want to consider strategy. Are the perceived price cliffs and gaps "on-strategy" and sending the message we want to consumers?

Does a price gap change proportionately to price? If mushroom prices doubled, would people still only be willing to pay 50 cents more for organic 8 oz?



Price gaps can be transformed from the price per unit, as we have presented them to date, to price per oz. In this manner gaps can scale with pricing actions introduced at shelf.

How much do price gaps vary regionally?

To a rather large extent. First, most gaps between select products are found in 1-2 regions. Otherwise gap management will be region and product specific, based upon the larger magnitudes of volume that can be protected if gaps are compliant.

Could random weight mushrooms' high price elasticity be impacted by their channel and audience?

Random weight mushrooms comprise 5% of mushroom sales and have limited distribution. Their price response is predicated on that limited distribution and the consumers shopping those stores.

Given the low-price elasticity, should retailers ever promote mushrooms? What does the promotion of random weight mushrooms look like?

Promotional response should primarily govern the frequency of events. Promotional flighting can also help drive trial and increase penetration and buy-rates for mushrooms, but expectations for financial success should be managed accordingly and that success criteria should be measured by softer metrics such as household penetration or increased usage occasions.