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"With without please…"
Free From – Perspectives for Retailers

Management Summary based on Qualitative Basic Research

On behalf of BIOFACH2015 into organic

Contents

1. Introduction

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Healthy foods are only healthy for people if they are also well tolerated. But this is precisely what is causing problems for more and more consumers. The number of people who consciously want to avoid particular ingredients is continuously rising. Under the umbrella term of "Free From", this young product category is currently expanding with new momentum.
For the first time, organic producers offering these items have an opportunity at BIOFACH from **11th to 14th February 2015** to show their expertise in this area along with the associated variety of enjoyable products in a separate category, the **trend category Free From**, on the Novelty stand.

Given the potential for growth of the young trend category Free From, BIOFACH commissioned a **qualitative psychological basic study** to investigate the **opportunities and barriers for retailers in the DACH region.** This was concerned with the main categories in the Free From segment: gluten-free, lactose-free and egg-free products.

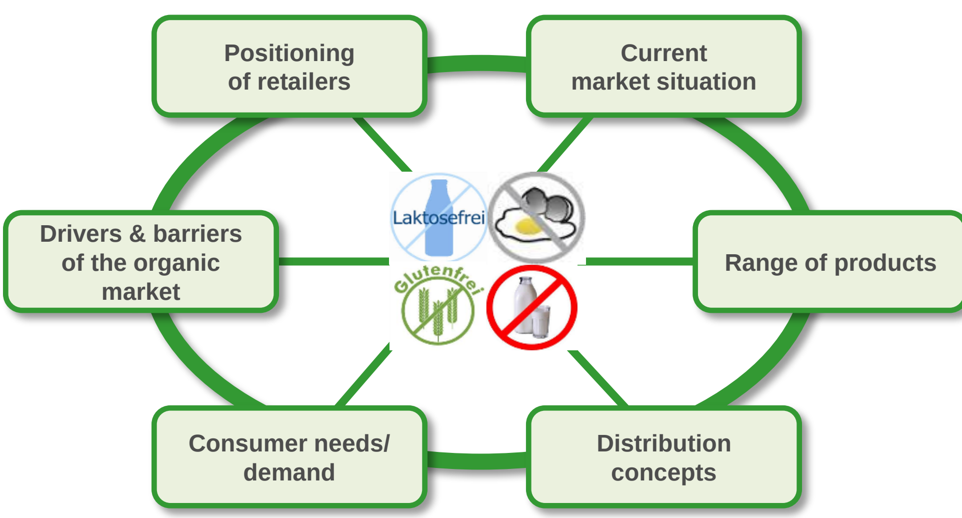
creative analytic 3000, a psychological marketing and innovation research agency from Frankfurt/Main, had already conducted a study on "food intolerances" on its own initiative in 2013. Therefore, as strategic partner for the basic research, the agency not only has the professional skills but also extensive background knowledge on the topic.

1. Introduction

Free From is not a new development but can look back on a long tradition to arise from a movement against so-called “food of civilisation”.
In the past this type of food was frequently associated with illness and regarded as a problem-solver (for people with intolerances). Today, a broad section of the population wants to eat more healthily by intentionally choosing to avoid certain food ingredients.

Free From is moving out of its niche position and becoming a general and self-evident form of nutrition. Besides the health-food stores, Free From has now also arrived in organic and conventional food retailing.

In this trend study we would like to show which different strategies the various distribution channels in the DACH countries will take and which positions will be adopted towards the trend. In particular we would like to highlight the challenges but also the opportunities for the organic sector in this context.



2. Method & Sample

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The basic research was conducted in the core markets of Germany, Austria and Switzerland.

In 30-minute explorative face-to-face interviews with retailers, the topic of Free From was approached at a qualitative level. Based on an open interview guide, the background to the issue as well as attitudes and opinions were discussed in detail.

Sample DACH Region

Organic shops	Organic supermarket chains	Health-food stores	Food retailers (supermarket chains) partly *Free From* assortment	Independent grocery stores
Sample N = 32 N = 16 Germany N = 8 Austria N = 8 Switzerland		N = 6 (Germany only)	**Sample N = 24** N = 16 Germany N = 4 Austria N = 4 Switzerland	

Total sample N = 62
N = 38 Germany
N = 12 Austria
N = 12 Switzerland

Test period: 3rd to 24th November 2014

3. Free From in the Market

Free From has strongly developed in the last two years and generates high rates of growth in all the distribution channels of the DACH countries: organic retailing (organic shops and supermarket chains), health-food stores (Germany only) and conventional food retailers (supermarket chains and independent grocery stores).

Each of the distribution channels has its own attitude towards the topic of Free From. The **organic channel and health-food stores** share their focus on health and nutrition consciousness. However, Free From products are not automatically organic. This factor makes it more difficult for the organic channel to deal with the issue since focusing on organic foods has definite priority for these stores.

Conventional food retailers think they have a basic obligation to supply all consumers and react to nutritional trends as a matter of course.

BUT

➔ Judging by classic foods, Free From is a segment with potential for expansion. Particularly the range of organic Free From products appears to be even more strongly limited.

4. Free From in the Distribution Channels

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The distribution channels have very different strategies for dealing with the topic of Free From. Common to them all is the endeavour to integrate Free From in that sales channel.

Conventional **food retailers** take a very aggressive approach to Free From and greatly increase awareness for the topic by developing and launching their own retail brands. Even if the Free From segment is not a large source of revenue in this distribution channel, conventional retailers profit from the image and competence transfer. Although discounters include the segment in their product portfolio, the price always still has priority for them.

Health-food stores, as a classic outlet for Free From, take a very positive view of developments and see this as a reaffirmation of their core competence. They are very open to the Free From segment which is even replacing the organic range in some cases.

Organic, ecological production and products have priority for the **organic channel**; here it is very clear that "organic" comes before "Free From". This is a channel with high credibility, expertise and a holistic approach it feels committed to.

While the organic supermarket chains appear to be more open to the Free From trend, the organic shops, especially in Austria and Germany, react more cautiously. They take an ambivalent view of the trend.

This attitude results among other things from the fact that the organic channel sees itself as having always sold products with few additives, associating Free From (e.g. lactose-free) with technically/ artificially modified foods which conflict with their own philosophy.

Moreover, the sudden claiming of items as Free From products which have always been in the assortment and were always Free From is criticised as a marketing trick.

The organic shops in Switzerland take a far more open attitude to this. Free From in Switzerland generally profits from the higher demands on food quality and the better financial resources of the consumers.

The question this raises for organic retailing, especially the organic shops, is how they can participate in the current trend without neglecting their own requirements (organic, sustainability, clean production standards).

To participate in the Free From trend, it is recommendable for organic retailers…

➔ … to recognise Free From as a long-term development that is here to stay.

➔ … not to neglect their organic, ecological focus but to treat Free From equally as part of healthy nutrition.

➔ … to open up to contemporary developments, lifestyle themes and also convenience food.

➔ … to widen their advisory skills by means of activities like e.g. cookery courses, recipes, nutritional advice.

5. Free From at the POS

Health-food stores, conventional food retailers and organic supermarket chains recognise the potential of the Free From trend and also increase awareness for the topic through its placement at the POS. Separate Free From shelves or block placements on the shelf allow the customers to obtain a quick overview of the range and draw attention to the trend at the POS.

Organic shops, on the other hand, complain about limited space making it impossible for them to suitably play with the topic.
Placing the Free From items with the product categories on the shelf is clearly preferred at the expense of Free From presence at the POS and customer orientation. However, this placement is explicitly wanted as the organic shops strongly position themselves on advice. Orientation should be achieved through personal contact with the retailer.

BUT

- ➔ There is no clear-cut truth concerning placement of the Free From segment at the POS. The main trend is towards a separate placement with additional signage for orientation. In Switzerland, however, there are first indications of a return to placement within the product categories.
- ➔ Nevertheless, it could be advantageous for organic shops to open up: guidance at the POS is appreciated by customers and ensures a stronger presence of Free From.

6. Free From in the Communication

The communication of Free From outside the POS, e.g. on posters, handbills, etc. is primarily performed by conventional food retailers and organic chains. Organic shops and health-food stores mainly communicate the topic at the POS, in personal conversation, through shelf labelling or the presentation of new products.

➔ Organic shops should likewise expand their external communication and consequently strengthen their own position.

7. Marketing of Free From at the POS

Beyond the manufacturer declarations, the claiming of Free From segments is primarily supported by organic chains, health-food stores and conventional food retailers by additional in-store signage (e.g. danglers or shelf strips). This is less of an issue for conventional food retailers because their retail brands are visually eye-catching and consistently designed.
However, the organic shops mainly use the manufacturer declarations without the provision of further information at the POS. Their credo is to give personal advice and lead the customer to the product.

BUT

➔ Additional signage at the POS not only serves the purpose of customer orientation but also increases the presence of Free From at the POS. This sales promotion measure should be used to a greater extent by organic shops.

8. Labelling of Free From Products

A **declaration** of the ingredients in the products by the manufacturers is increasingly regulated by new EU guidelines. The problem, however, is that there is no consistent labelling for the various Free From categories (egg-free, lactose-free, gluten-free, etc.).

At present every manufacturer uses the labelling of his choice. The consequence is a deluge of many different symbols and labels which provide the customer with just limited orientation.

THERERFORE

➔ Wish for a consistent declaration for the sake of clear customer orientation and more transparency.

9. Free From Segments

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The **individual Free From segments** are dynamically developing and becoming more and more differentiated. The retailers can fall back on a large number of products.

The **gluten-free segment** is the strongest in all channels. It covers the most product categories and is in greatest demand. Fresh items and convenience products are increasingly being added to the assortment.

The **lactose-free** segment largely falls within the competence of conventional food retailers. The organic channel is more likely to offer milk substitute products while health-food stores try to cater to both product assortments.

The **egg-free segment** is – apart from a few exceptions – still rather small and frequently integrated in the vegan range in the organic channel and health-food stores. Conventional food retailers have not yet taken up this assortment and still do not sell any specific egg-free products beyond products that are "naturally egg-free"

Up to now, the distribution channels have not generally striven for specialisation in particular Free From segments.

Specialisation would be an opportunity for **organic shops** to differentiate from competitors/ conventional retailers and at the same time take account of the space problems. Organic shops have so far sought niche products/ luxury products in the Free From sector as a means of positioning.

10. Free From Barriers

A basic requirement for the development of Free From potential is the dismantling of barriers. This is a challenge first and foremost for the manufacturers, especially the manufacturers of organic Free From products.

Generally wanted from manufacturers

- ➔ Further improve the culinary quality of Free From products as this does not yet come up to conventional products.
- ➔ Further widen the variety of products, the range of normal foods always being regarded as the benchmark here.
- ➔ A consistent declaration would lead to greater customer reassurance and orientation.
- ➔ The price level is experienced as very high across all the distribution channels; more attractive prices for customers would be welcomed.
- ➔ Support awareness of their products by marketing activities (➔ focus on enjoyment, make the products/ the topic more prominent)
- ➔ The pack designs could also be made far more attractive and signal more “enjoyment/ fun” instead of “illness”.

- ➔ Conventional **food retailers, health-food stores and organic chains** would particularly like an **extended range of convenience products.**
- ➔ **Organic shops**, on the other hand, would like a **clear focus on organic** and products with few additives, no ready-to-use products. It is also primarily the organic shops that make requests of the **wholesalers**. This channel suffers from purchase quantities, a limited range of products, too slow inclusion of new, innovative products in the assortment and partly too long delivery times.

11. Potential for the Development of Free From

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All the distribution channels see potential for development in the Free From segment. The importance of Free From will increase in future and the need for such products grow. Nutritional habits are generally changing, consumers are becoming more sensitive and allergies continue to increase.

Conventional **food retailers**, on the other hand, hope that big food corporations will start to produce items suitable for the mass market in order to lead Free From out of the niche and generate turnover in conventional food retailing. ➔ In this context much can still be expected especially since the first big food corporations are showing an interest in the Free From issue and already bringing the first products to market.

Health-food stores see this as confirmation of their traditional positioning and hope to participate in the further development.

The **organic channel** hopes its leading edge in health matters will enable it to continue to successfully position itself.

BUT

- ➔ All the distribution channels should exploit the potential. At present classic food retailers and health-food stores are a step ahead.
- ➔ The organic channel, especially organic shops, must actively take a stance on current developments if they are to participate in the great potential of Free From. This sector is especially predestined to embrace the subject, for example due to its expertise in advising customers.

12. Conclusion

The Free From segment holds many opportunities for all retail channels.

Firstly, the aim must be to position the topic of Free From even more prominently through external communication – across all classic and digital channels – and hence make the products more accessible to customers.

Furthermore, closer dialogue between retailers and manufacturers is needed to lower the barriers and face the competition with a joint positioning.

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Thank you for your attention!