

Succeeding in a Highly Competitive Food Retail Environment

JANUARY 2013

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Retail Systems Research, LLC



Agenda

RSR and our BOOT methodology

The “Reset Moment”

Where are We Now?

A little bit about Big Data

The “5 C’s”

What it means for You

Founded in 2007 to quickly become the leading source of insights for trends in retail technology, and retail in general

Mission: To elevate the conversation about retail technology to a strategic level within the retail enterprise by:

- Providing **objective, pragmatic advice** to both *retailers* and *solution providers*
- Leveraging our **extensive retail industry experience (75+ years)**
- Providing a **deep bed of research** into retailers' technology investment plans and the business opportunities and challenges that drive those investments.

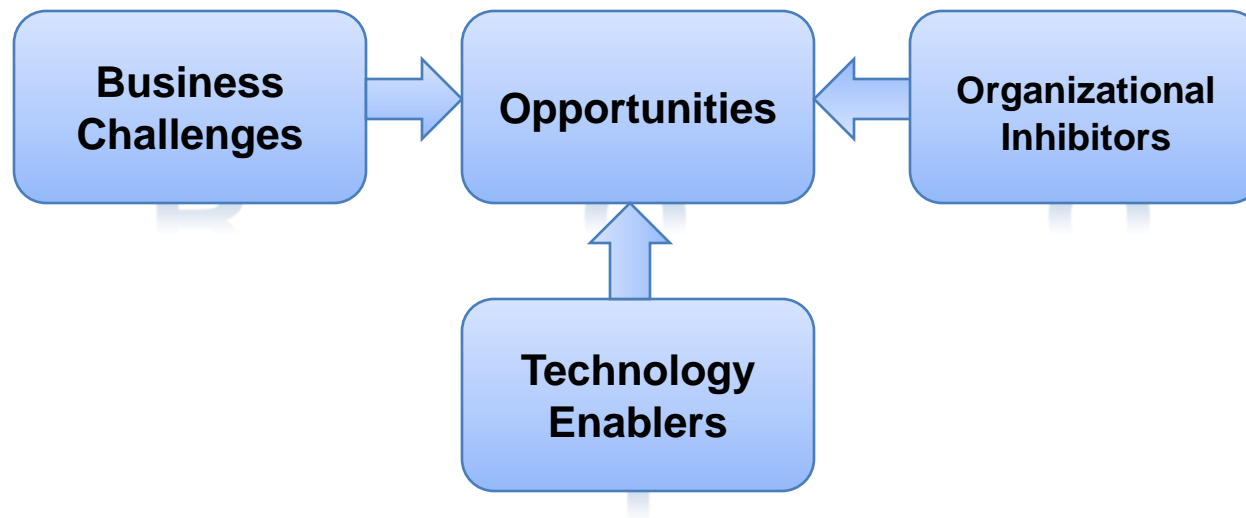


The RSR Difference

- **Market Intelligence, focused on retail**
- **Context: the business challenges & opportunities that drive technology investments**
- **Pragmatic insights**
- **Powered by extensive retail experience**
- **Fueled by a deep bed of research data**

- **We help retailers keep their IT strategies aligned with corporate objectives**
- **We help solution providers align their products and messages with retailers' needs**

Our BOOT Methodology



Retail Winners: Year-over-year comparable store sales outperform inflation.

They sell more “stuff” but... they also think and act differently than their competitors.



The “Reset Moment”

ALMOST EVERYTHING CHANGES

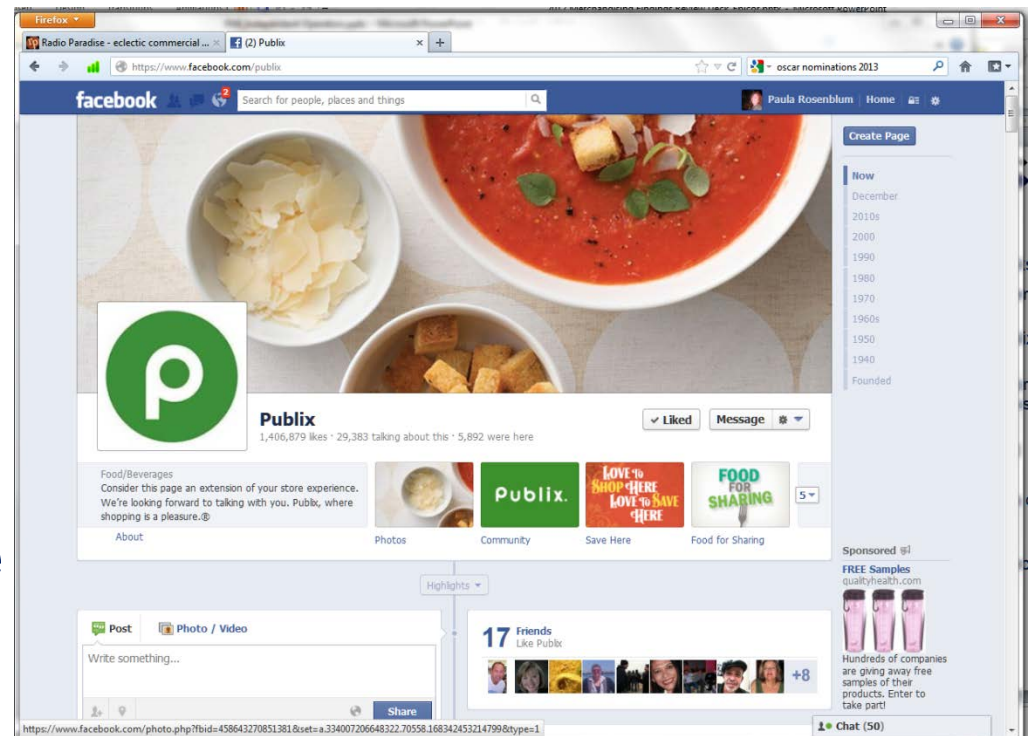
A Worldview Designed Around This:



Meets a Worldview Enabled by This:



And this:



A dramatic shift in the power dynamic between the retailer and the consumer.

In a Transparent World...

Retailers will have to provide consumers with more access, at a more granular level, to more information about their operations and how consumers fit into those operations.

Examples:

Price

Visibility

- Both internal and external

Inventory availability

Tailored Assortments (Curated)

Consumer access to experts

Consumer access to product info

- Country of origin, manufacturing sustainability, GMO, etc.



Where Are We Now?

HOW DID WE GET HERE, AND HOW DO
WE GET OUT?

Why Does Anyone Think This is a Good Thing?



Unnamed Very Large Retailer, 10 PM Thanksgiving Day, 2012

Did this add to overall season sales or profits? Did it elevate anyone's opinion of the retailer? Did it create desirable consumer behavior? Were employees pleased?

Especially When We Hope for This...

Top Three (3) Opportunities for Pricing to Contribute to Your Company's Business Strategy in the Next Two (2) Years



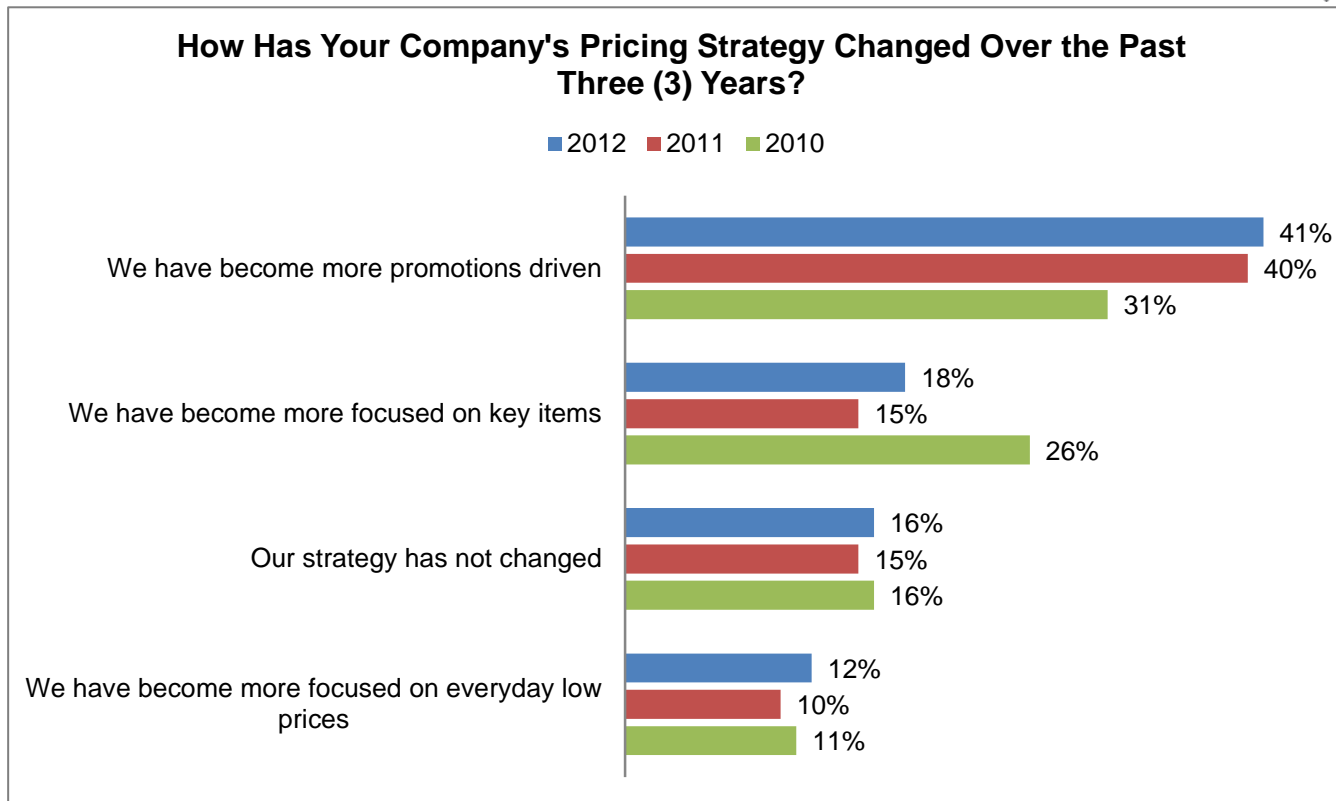
Source, RSR Research, April 2012

It's fair to say we accomplished "none of the above".

What the Data Tells Us

- **In Retailers' minds, consumer price sensitivity trumps everything**
 - This has become a self-fulfilling prophecy
- **Channel proliferation has an impact on pricing thought process**
- **Commoditization and price erosion plagues laggards, as do the competitors**
- **Retail Winners tend to be more focused on the customer**
- **Store execution matters more than ever**, especially to Retail Winners *“Consumers look to retailers that offer a shopping experience that inspires them...regardless of their skill level in the kitchen”*
- **Employees matter** – they need to be at least as educated as the shoppers.

Promotions as a Way of Life?

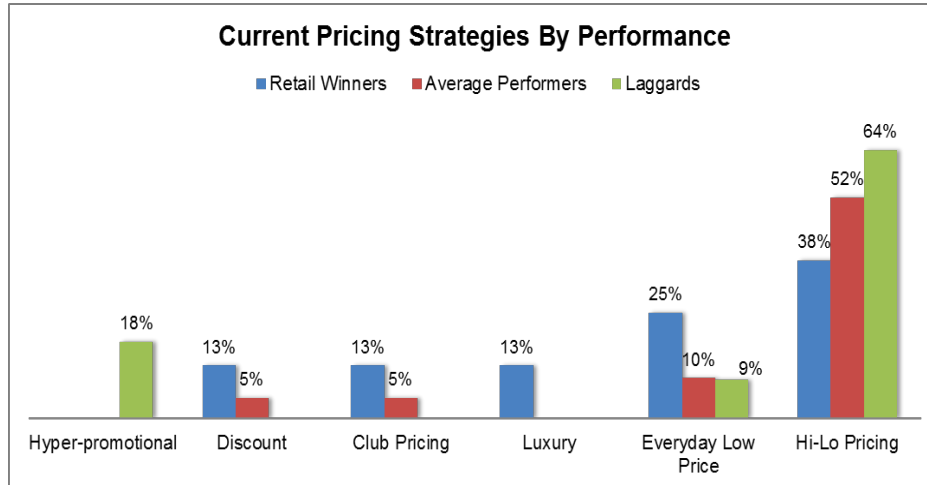


Source, RSR Research, April 2012

“Appealing to consumers today requires much more than offering a wide range of products at the lowest price. While this is an effective way to attract shoppers, it does not secure loyalty. Instead it conditions shoppers to look elsewhere to find a lower price. Another way to offer value and build loyalty is to understand what consumers want that they can’t get elsewhere. Part of that is offering consumers products that go beyond the usual...which involves creating a compelling retail environment that inspires shoppers.”

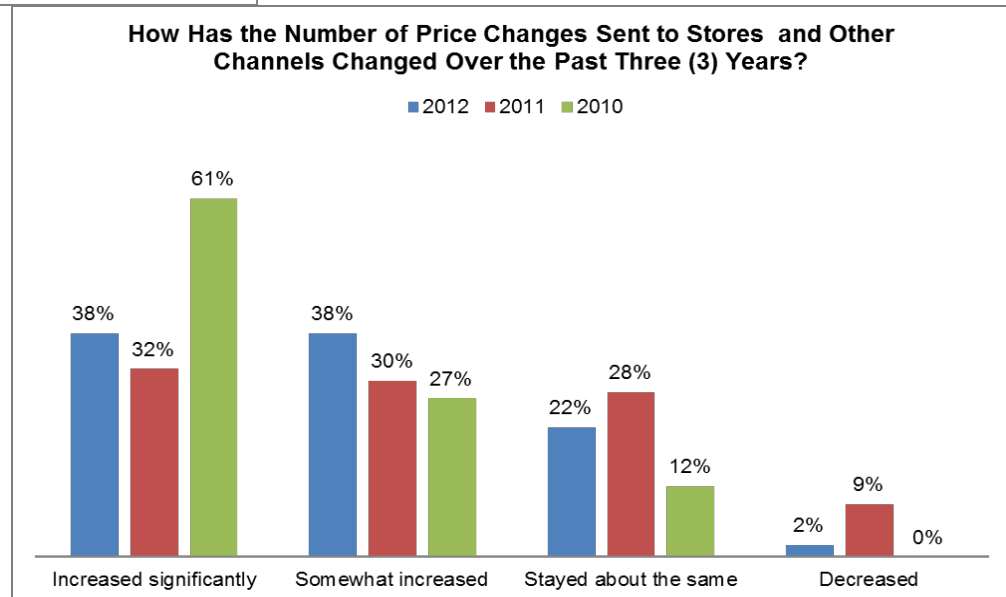
Source: Reframing Retail Through the Lens of Changing Food Culture

Winners Believe They're Avoiding Hyper-promotional Tactics



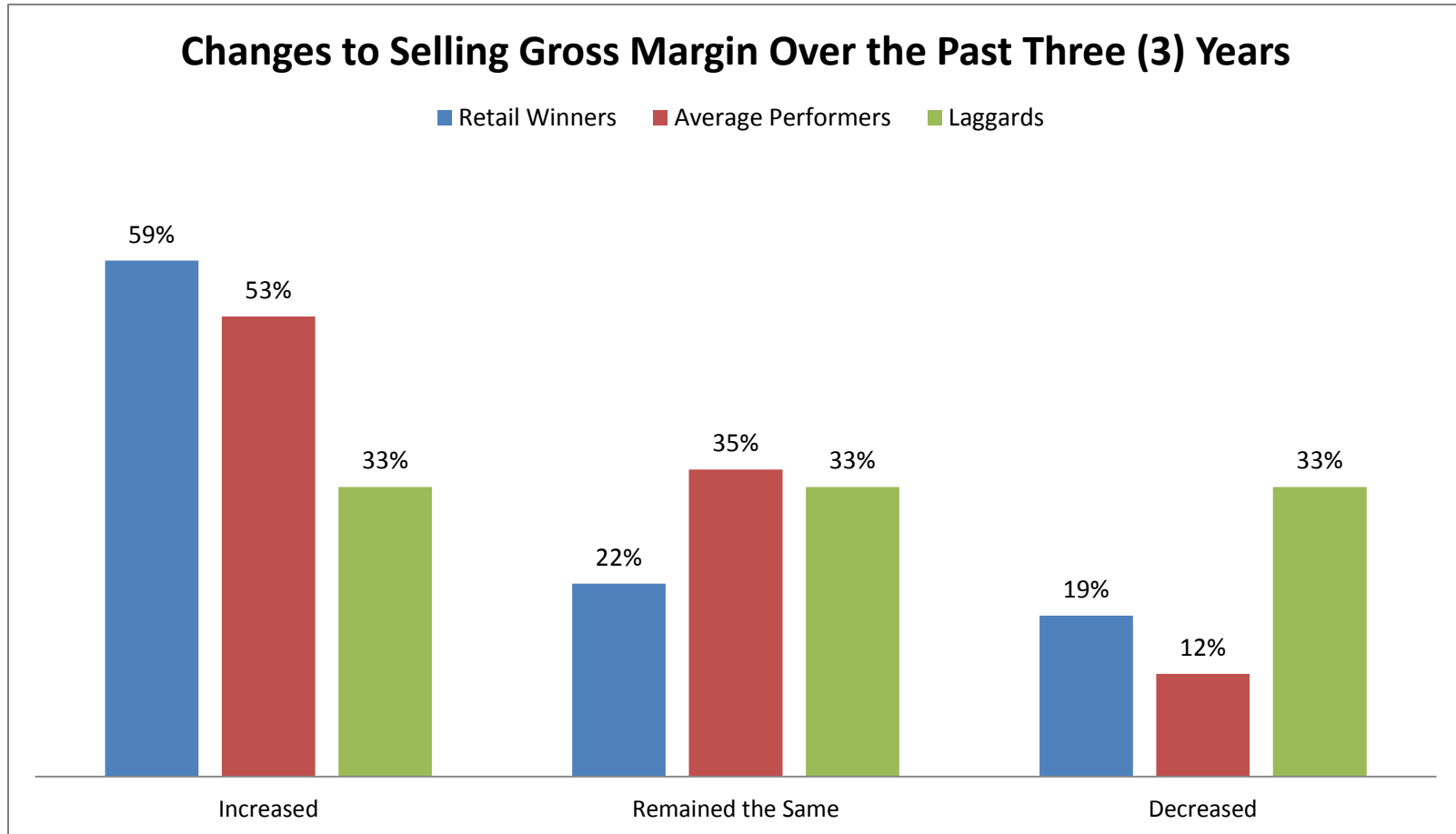
However....the sheer volume of price changes seems to tell a different story...

This may attract cherry pickers, but it will not build loyalty.



Source, RSR Research, April 2012

Laggards are Caught in a Trap

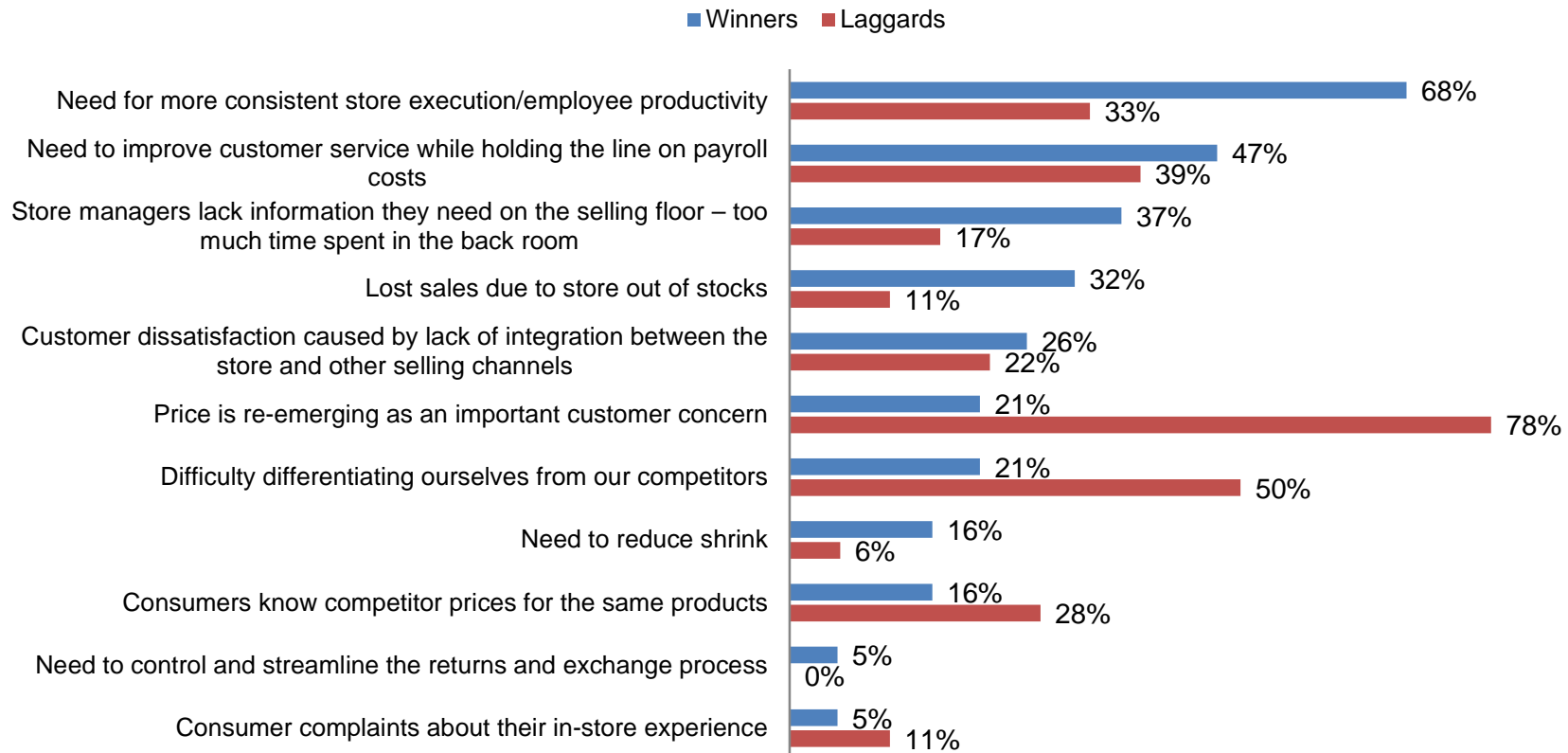


Source: RSR Research, August 2012

Hyper-promotions or inventory imbalances driving markdowns?

Winners Look Beyond Price

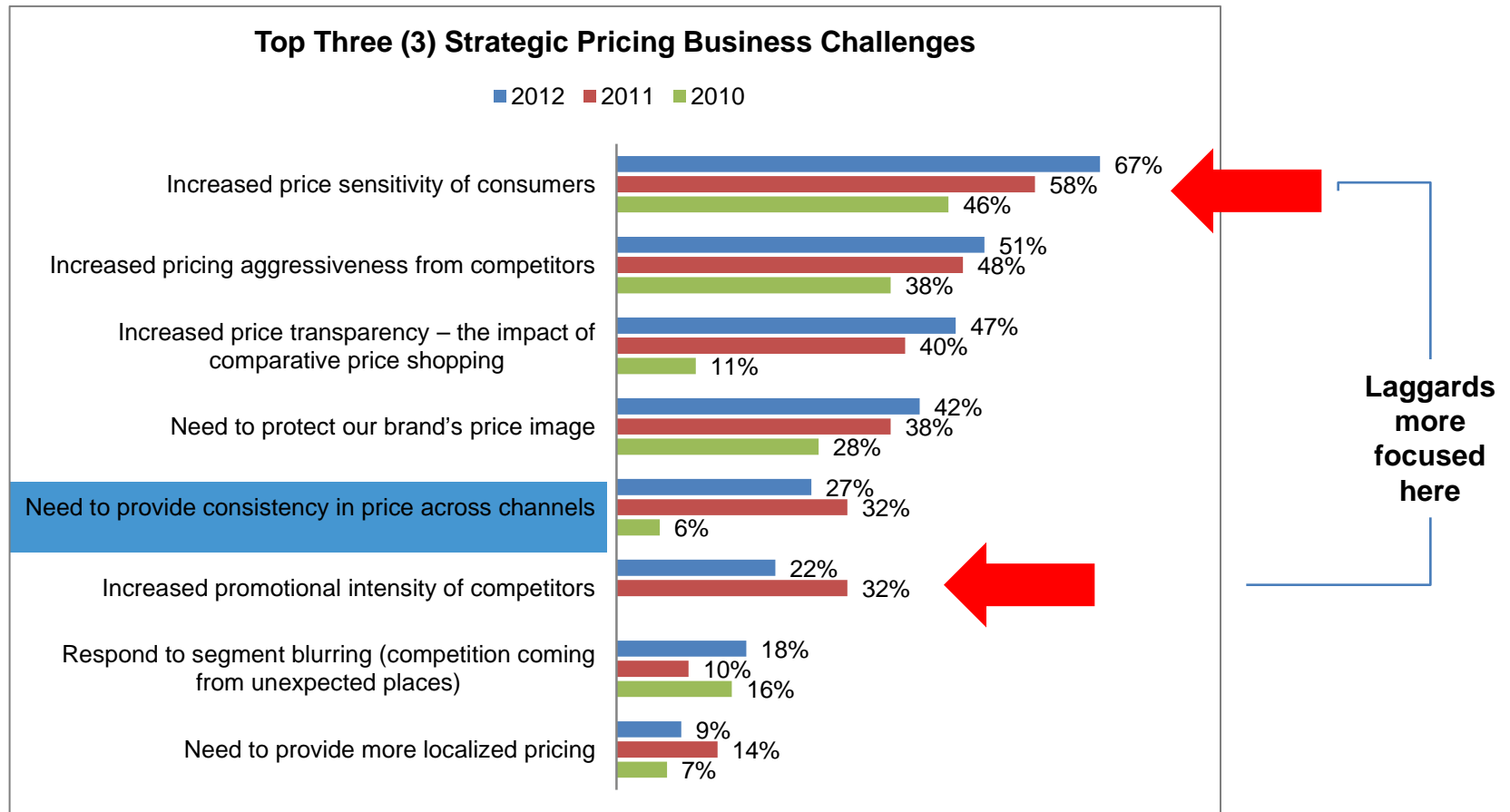
Please select the TOP THREE (3) business challenges you face in your retail stores:



Source: RSR Research, May 2012

The price obsession remains disconcerting
Differentiation is key

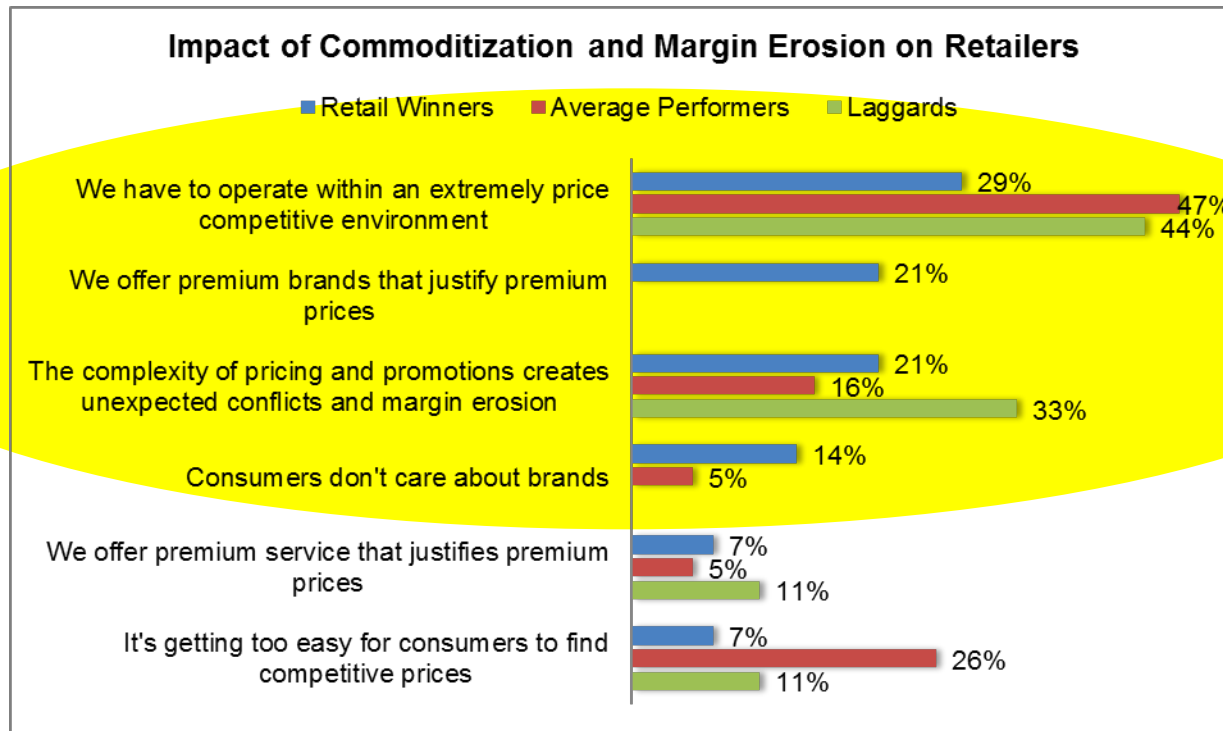
Downward Pricing Pressures



Source, RSR Research, April 2012

Even in a continued improving economy, Retailers
obsess on the race to the bottom

Commoditization and Margin Erosion Hitting Laggards Hard



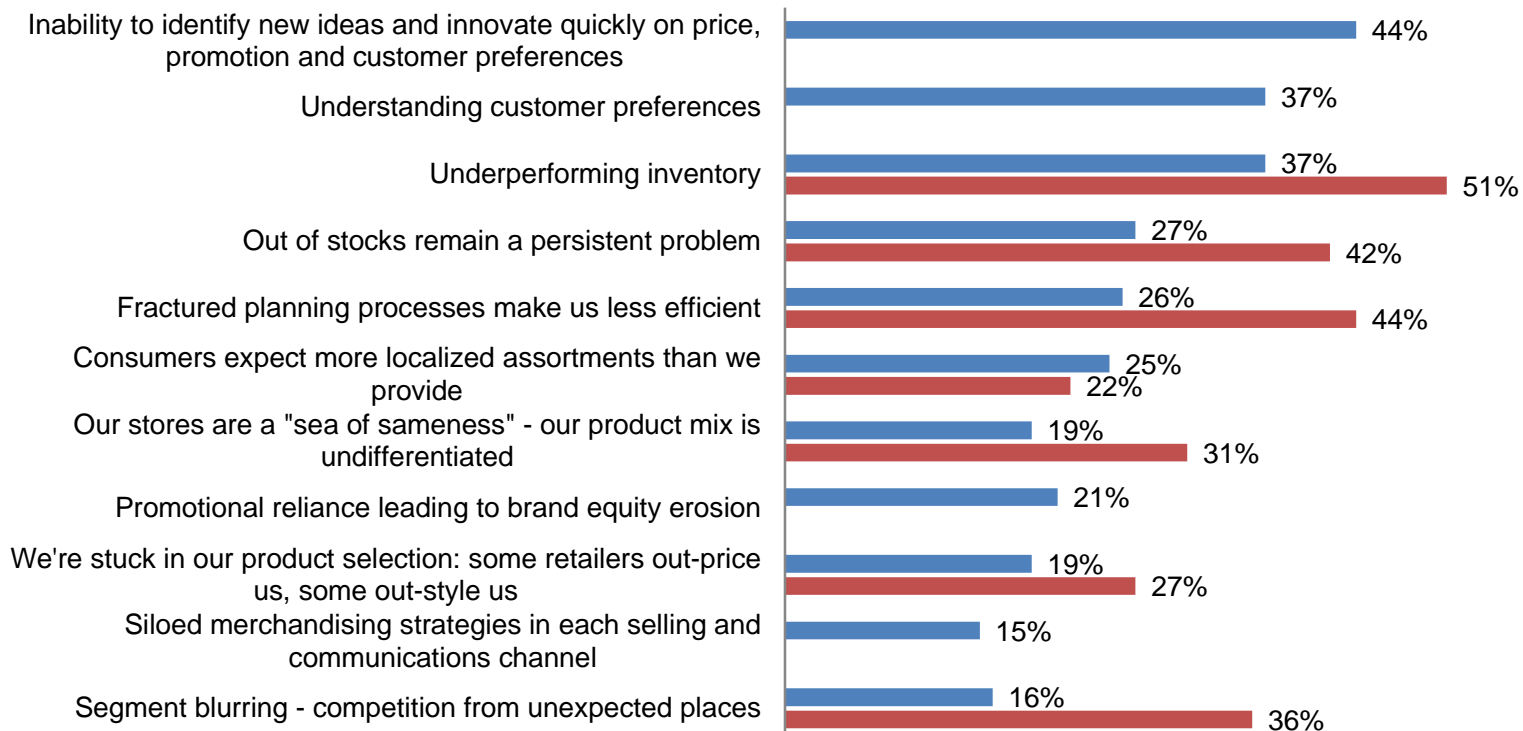
Source, RSR Research, April 2012

Retail Winners look outward, to the customer, and most customers clearly have different priorities.

On the Merchandising Front, it's All About the Customer

Top Three (3) Business Challenges

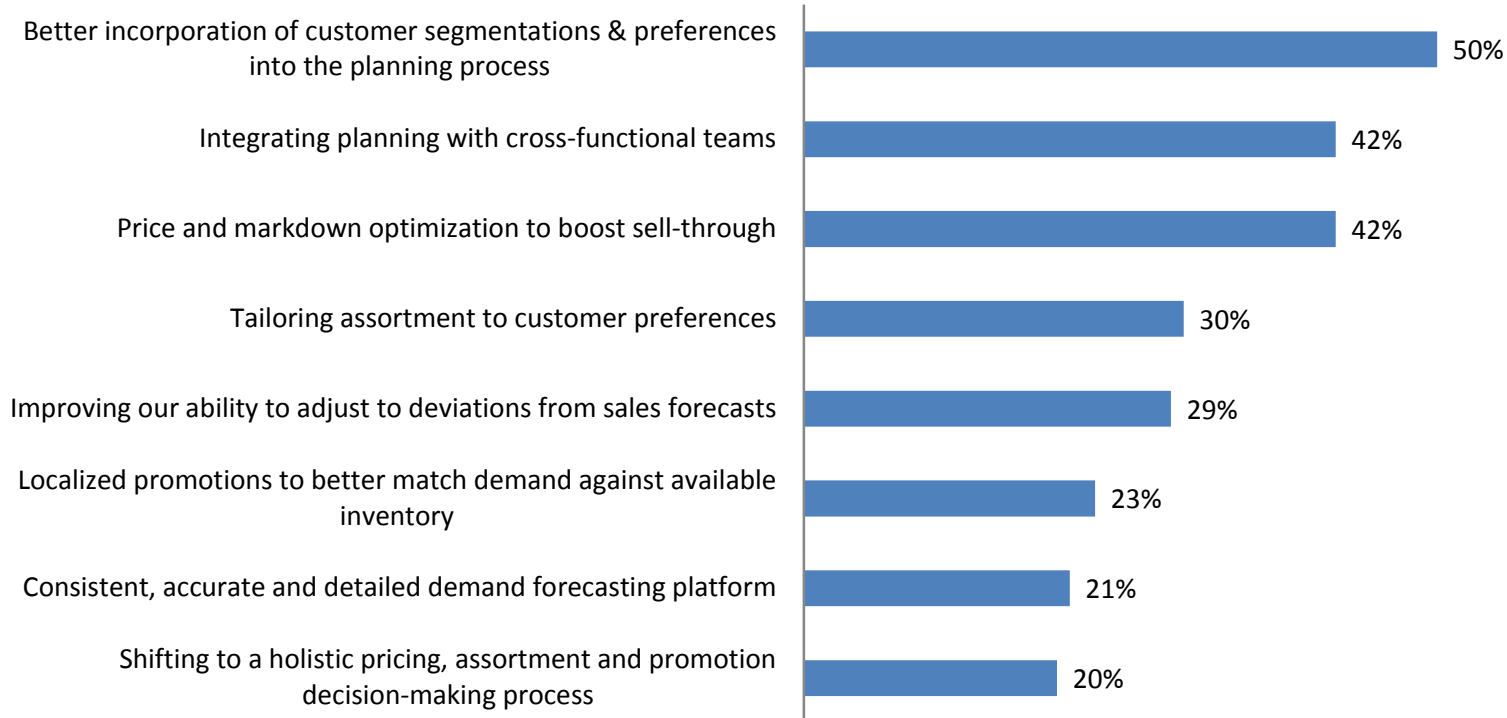
■ 2012 ■ 2011



Source: RSR Research, August 2012

This doesn't mean that product issues are NOT important,
it just means they are trumped by these concerns

Top Three (3) Most Important Opportunities or Improving Merchandising Processes



Source: RSR Research, August 2012

“Most consumers (62%) want to shop where there are always unique products to try. But presenting the right product mix is critical. Shoppers expect retailers to be good curators, and to carry what they want and omit what they don’t want.”

Source: Reframing Retail Through the Lens of Changing Food Culture

For Winners: The Store is All About Employees

What are the TOP THREE (3) opportunities for improving the in-store experience?

■ Winners ■ Average ■ Laggards



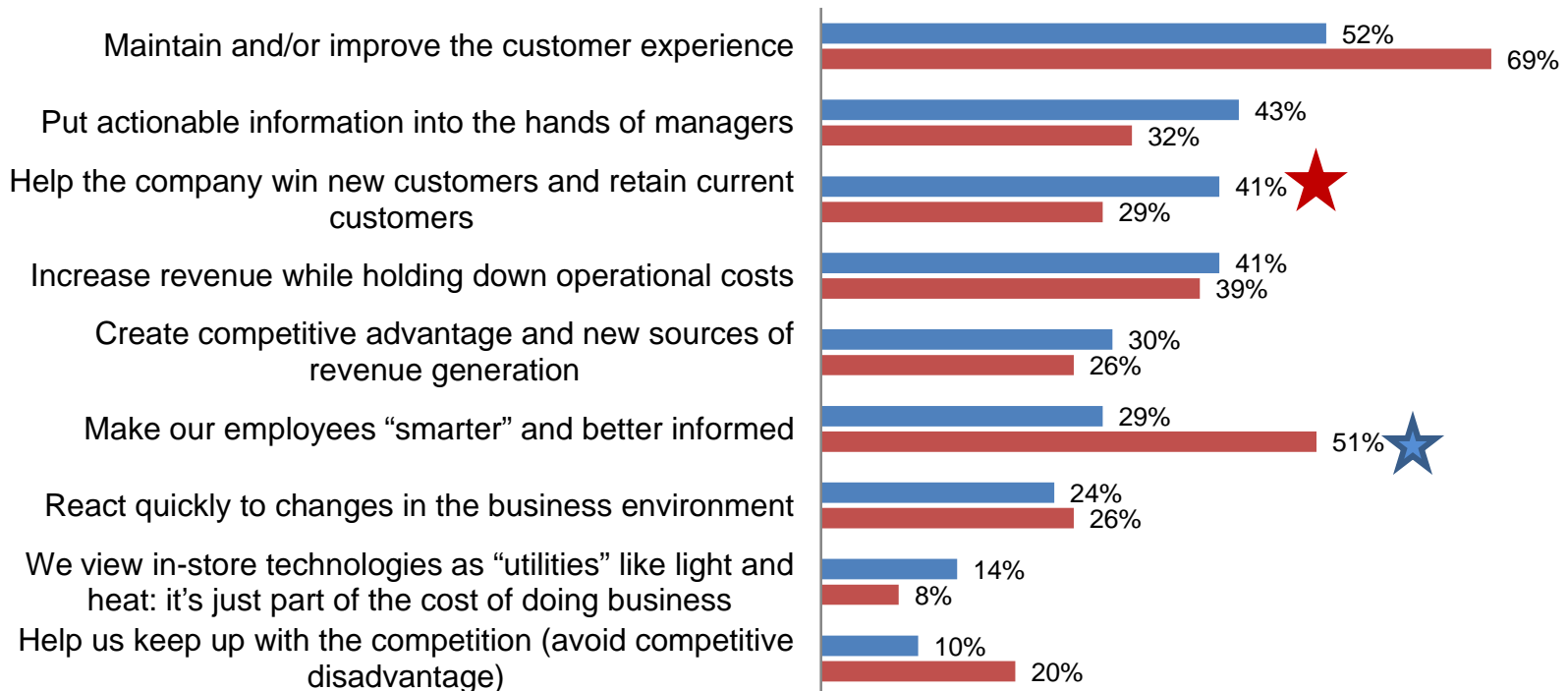
Source: RSR Research, May 2012

“Shoppers expect retailers to be good curators who carry what they want and eliminate what they don’t. It’s not enough to stand out as a favored retailer. It requires becoming a curator of the right mix of quality products and brands, with a knowledgeable and interactive staff.”

Technology Supports Customer Centricity

What are the TOP THREE (3) uses of in-store technologies?

■ 2012 ■ 2011



Source: RSR Research, May 2012

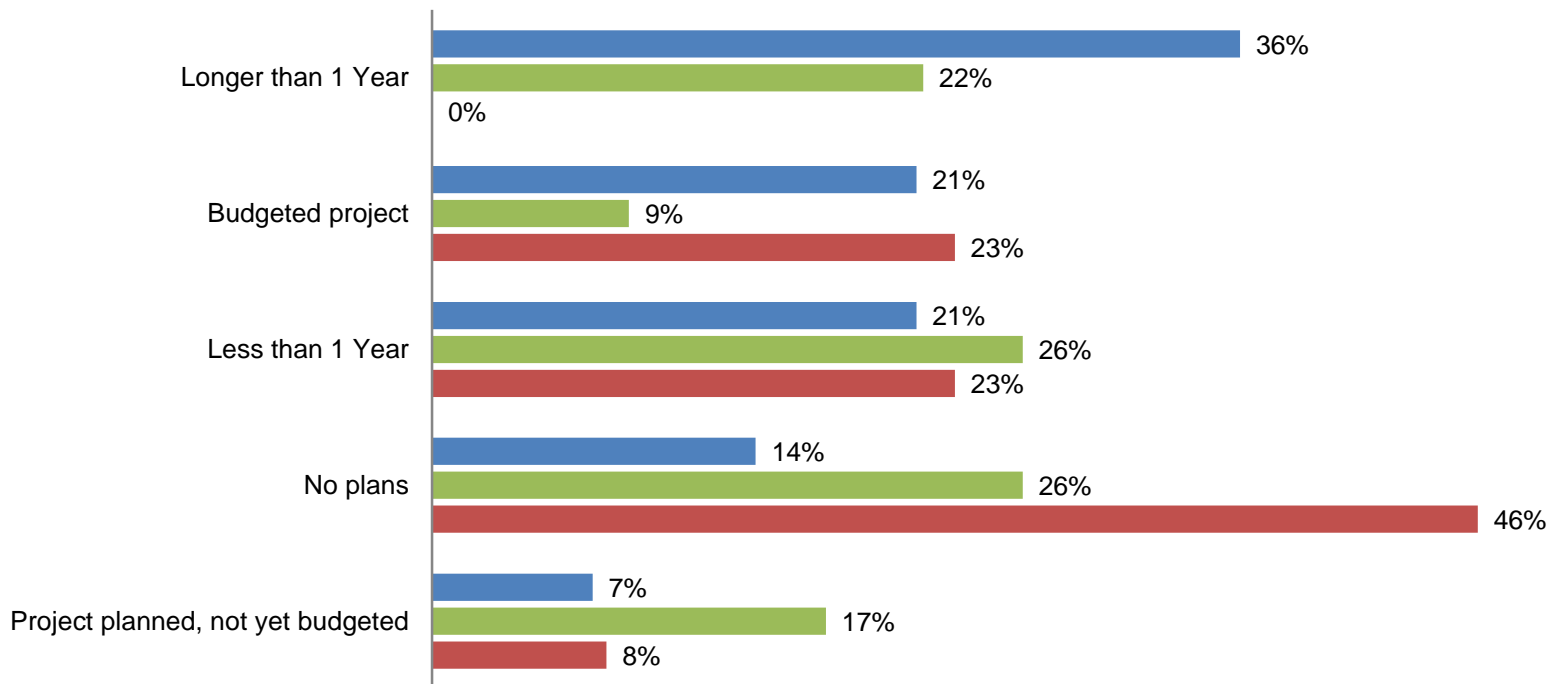
★ Decrease driven by laggards (50% of Winners cite vs. only 6% of laggards)

★ Increase driven by laggards (56% of laggards cite vs. 35% of Winners)

Winners Move Forward with Store Manager Mobility

How long has your company been actively involved in adding MOBILE technology-enabled touch-points for STORE MANAGERS within your store?

■ Winners ■ Average ■ Laggards



Source: RSR Research, May 2012

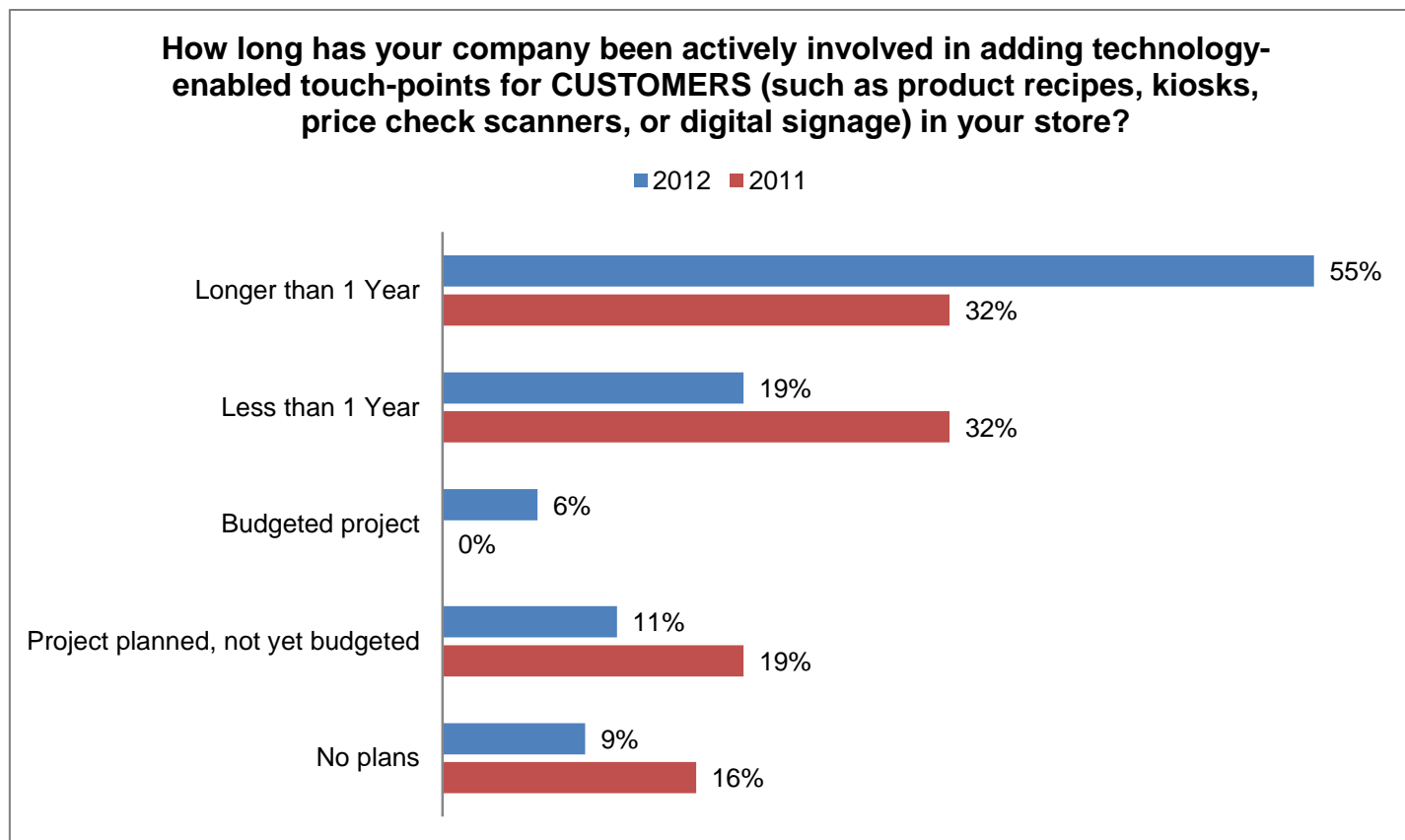
Forecasting is the Lynchpin



Source: RSR Research, August 2012

As we grow, we can't manage this with simple CAO systems and manual info on customers.

Appears as Though Customer Touch Point Investments may have Peaked



Source: RSR Research, May 2012

My translation? “People need people, or why go to the store?”

The Message is Simple

- **No one wins in a race to the bottom**
- **Knowing your CUSTOMER is the key advantage of the independent retailer**
- **Product selection is important**
- **The in-store environment really matters**
 - An uneducated, cranky employee is worse than no employee at all
 - Consistency across stores is critical

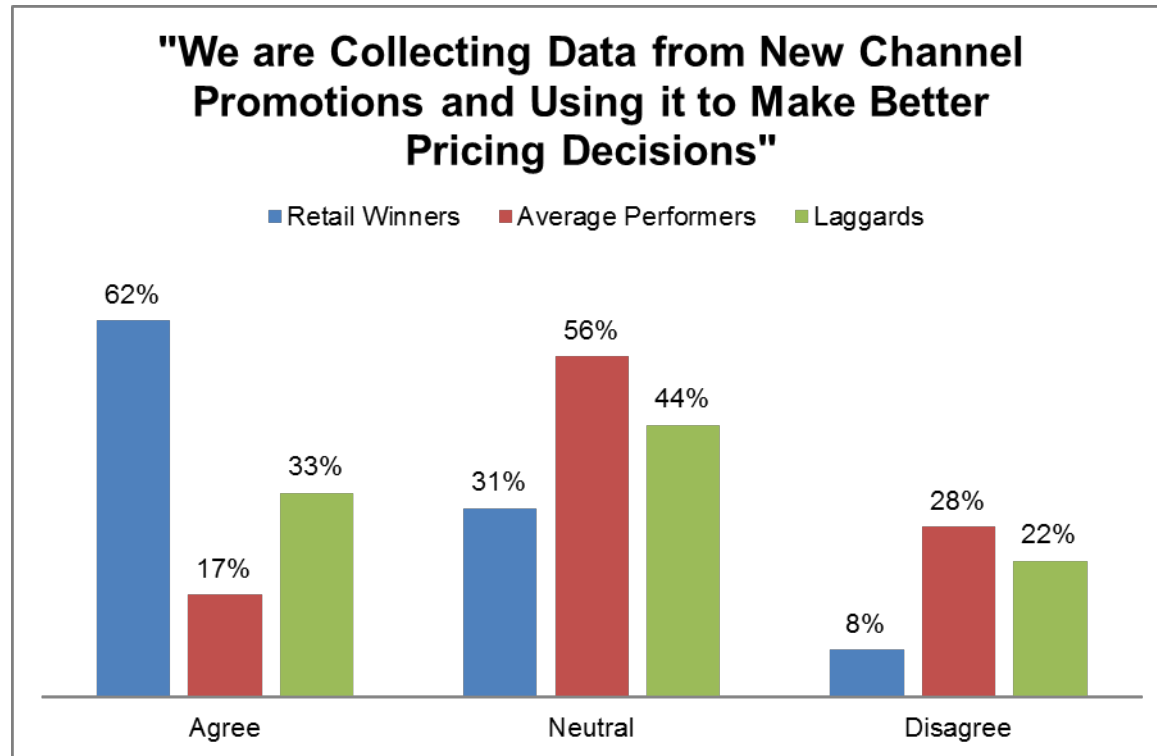
Mega-retailers wish they had what you have, and they [mostly] really can't get it.

- **Instead of worrying about “The Amazon Effect,” get better!**

GREAT MYSTERIES EXPLAINED

Big Data Demystified

The New Holy Grail: "Big Data"



Source, RSR Research, April 2012

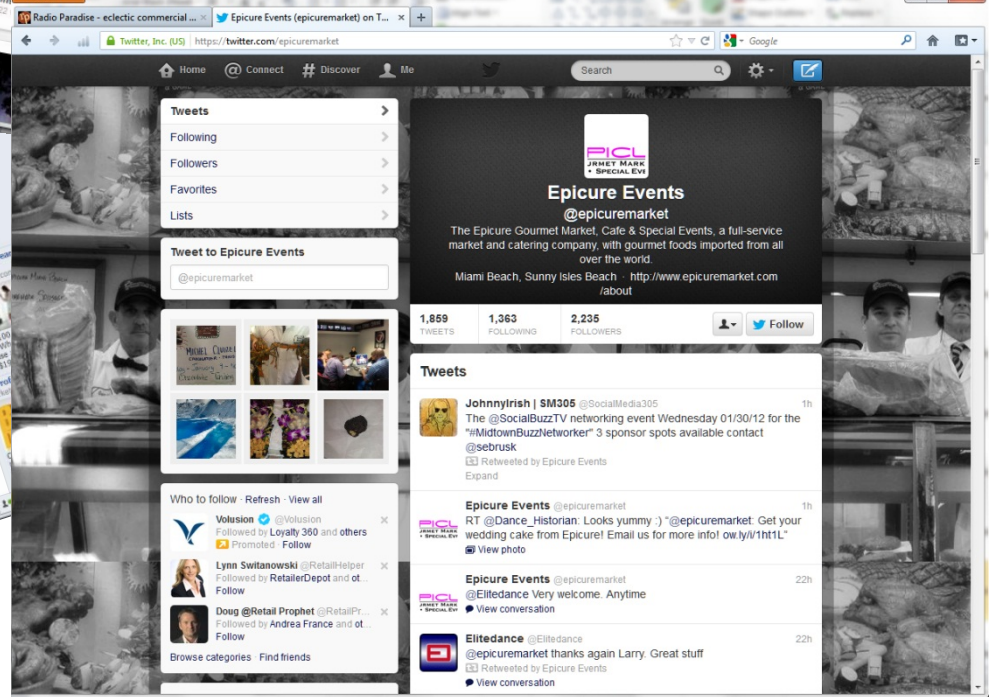
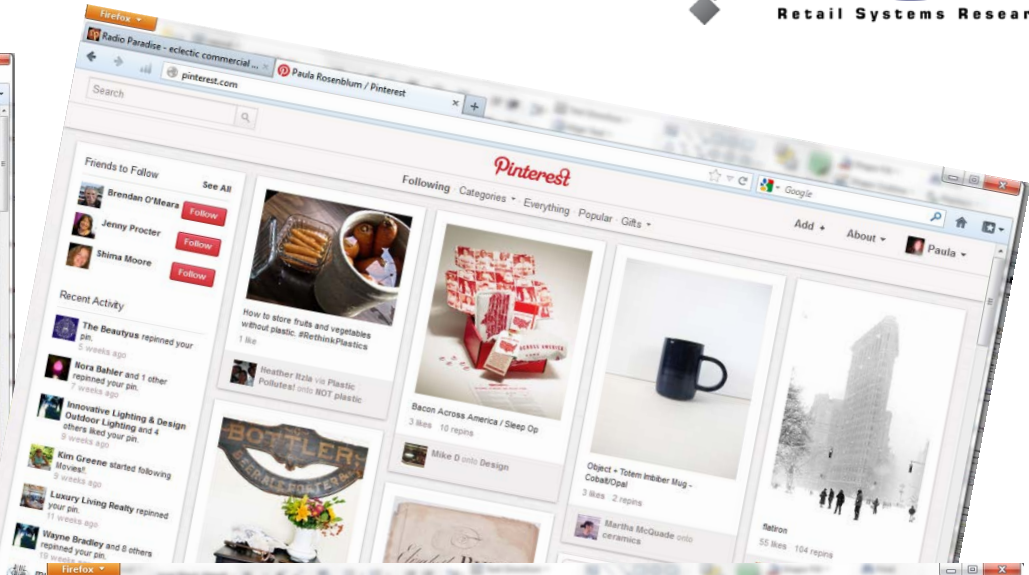
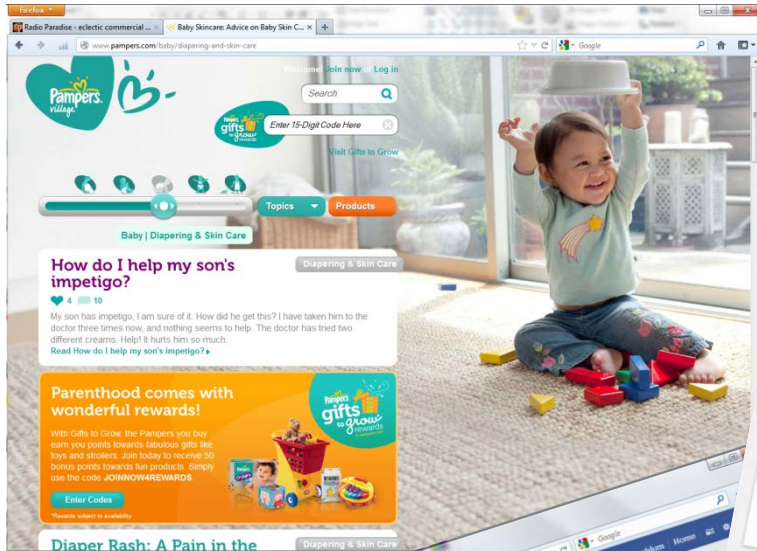
What the Heck IS Big Data Anyway?

“The aggregation and consolidation of structured and unstructured data from sources like reviews, social networks, web sites and other sources into business intelligence and actionable information.”

Our world has fewer anonymous transactions, lots of information, and the computing power to actually make sense of what we see.

But....to use it, we have to get our heads out of the weeds to use it (Retailers love detail).

Big Data Sources Abound



**But how many of us just have interns
looking for the squeaky wheels???**

That's not "Big Data"

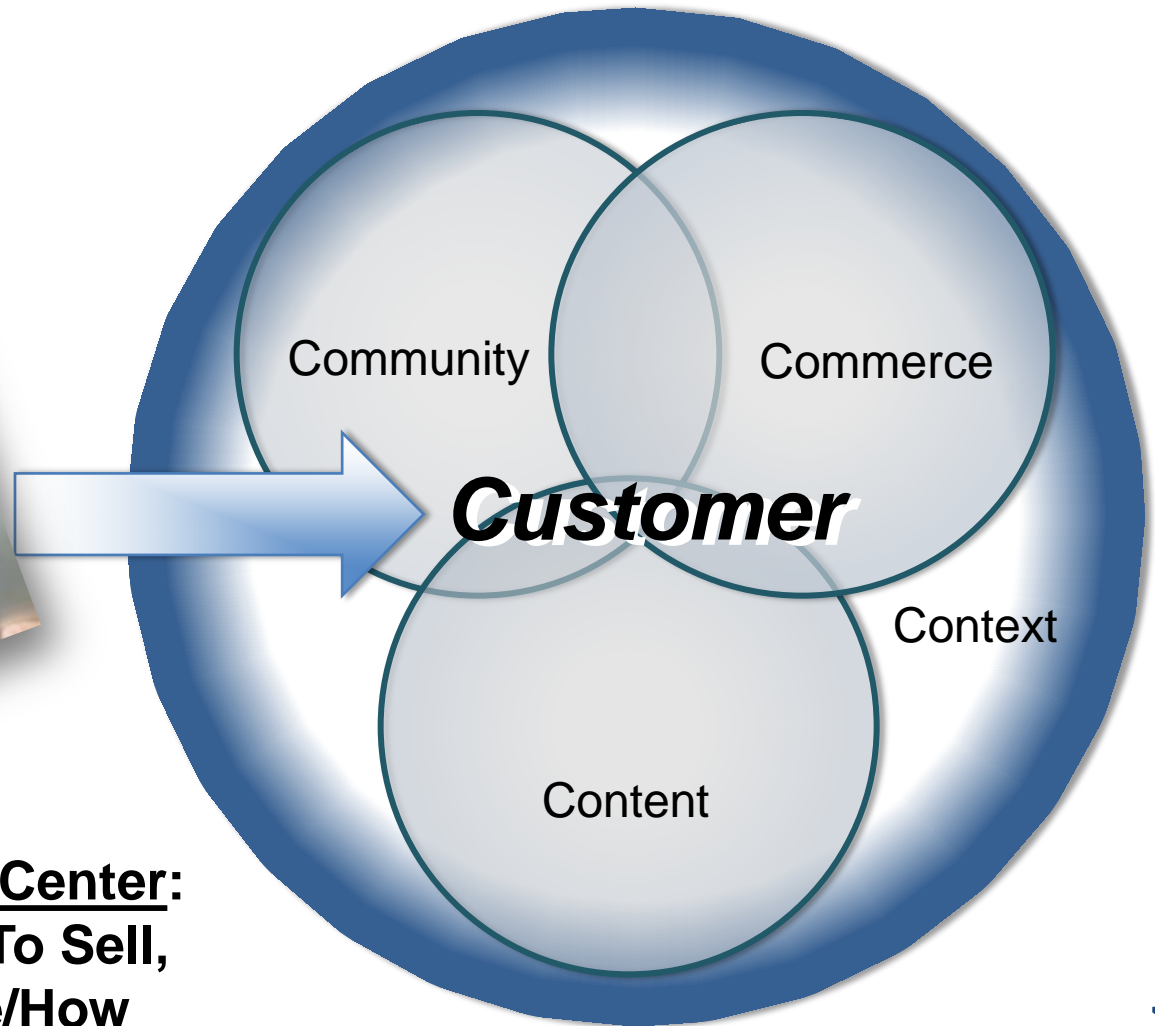
That's not analytic

And it doesn't really capture sentiment.

The “Five C’s” of Any-channel Retailing

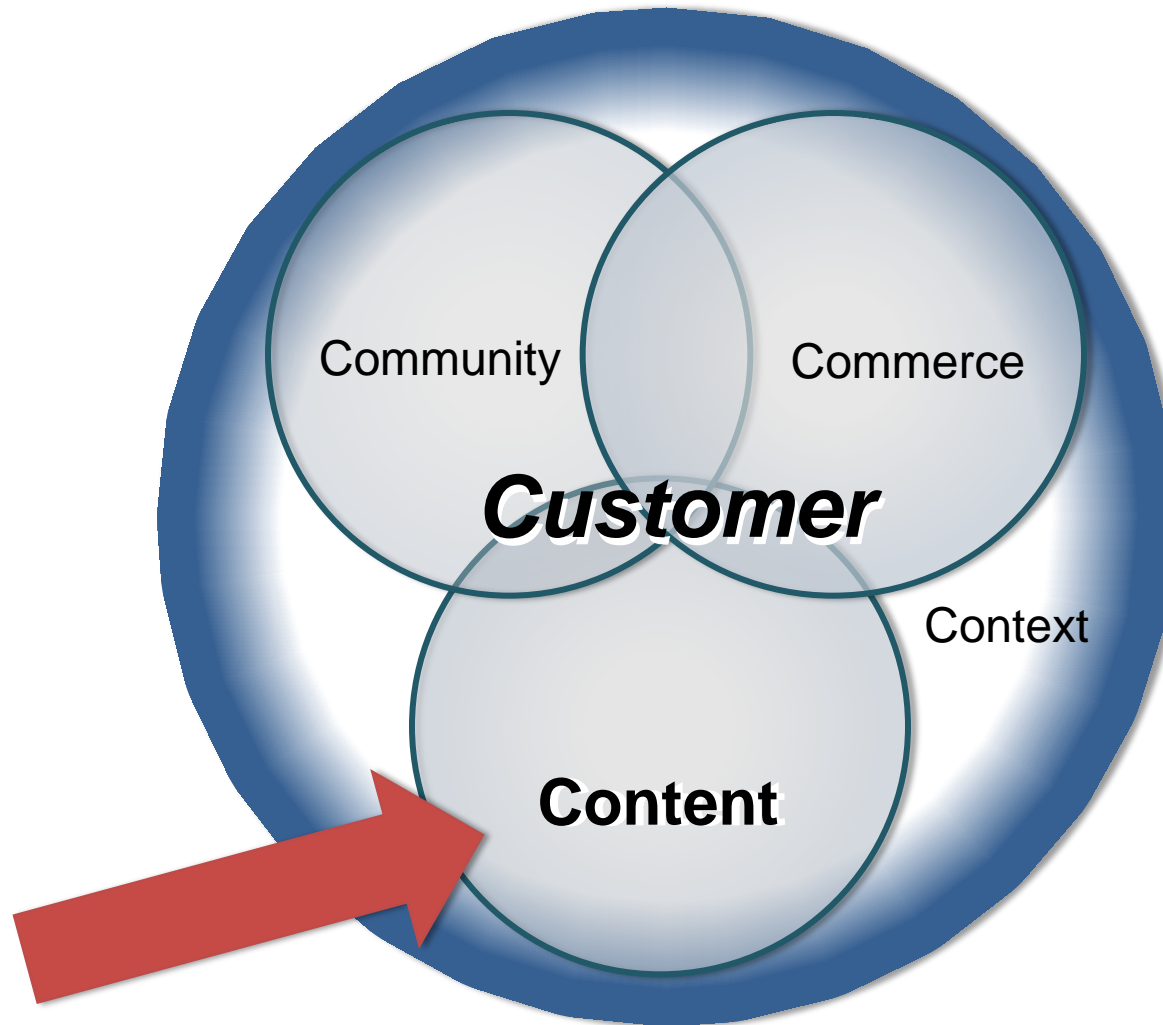
WHAT DO THEY MEAN? WHAT DO WE NEED?

"The Five C's"



THE CUSTOMER At The Center:
It's Not What You Want To Sell,
But What/When/Where/How
Consumers Want To Buy

Content ("The Information
Needed To Solve The Problem")



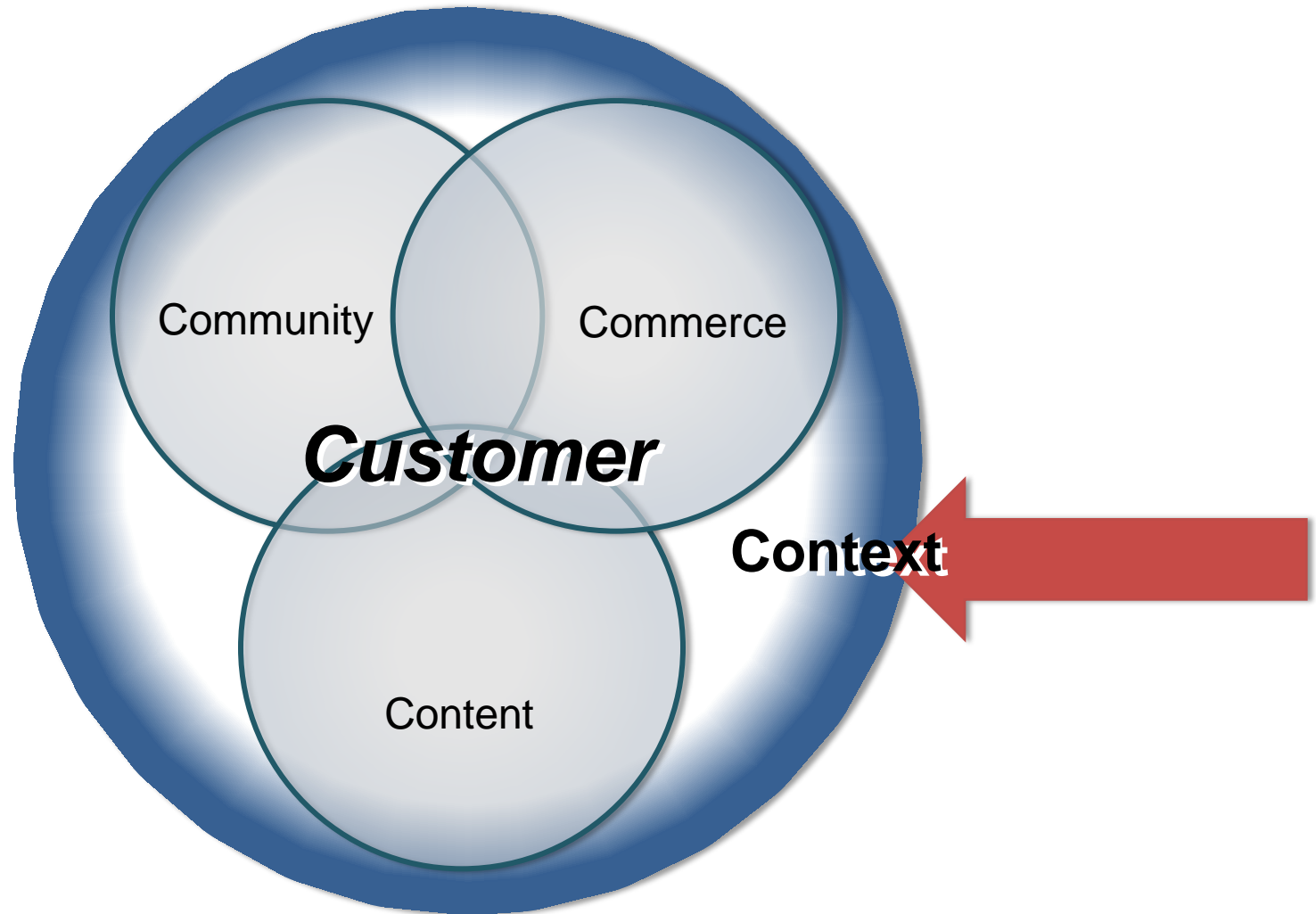
Content = All of the content that a retailer or brand can bring to bear to influence, enhance, or shape the purchase decision

- Product/category info
- Reviews
- Recommendations
- Blogs
- Videos
- Comments
- Comparisons/Analysis

Early in the buying process, content serves an educational role and may be more relevant at category, rather than product level.

Later in the buying process, content serves a selection role, helping consumers narrow their choices within a category.

Context ("The Problem To Be Solved")



Context = Relevancy = Behavior

DECISION PROXIMITY

Selection

- Content is focused on **PRODUCT CHOICES** or **COMPARISON**
- Community is focused on **VALIDATION**
- Web Commerce is Featured

- Content is focused on **PRODUCT CHOICES** or **COMPARISON**
- Community is focused on **VALIDATION**
- Mobile or Store Commerce is Featured

Awareness

- Content is focused **EDUCATION**
- Community is focused on **CATEGORY**
- Web Commerce is Available

- Content is focused **EDUCATION**
- Community is focused on **CATEGORY**
- Mobile or Store Commerce is Available

Far

Near

PHYSICAL PROXIMITY

Relevancy Online (In Context)

Firefox

Amazon.com: Recommended for You

amazon.com https://www.amazon.com/gp/yourstore/home?ie=UTF8&ref=topnav_storetab_ys

amazon Prime

Paula's Amazon.com | Today's Deals | Gift Cards | Help

Shop by Department

Search

Go

Hello, Paula Your Account

Cart

Wish List


Your Amazon.com | Your Browsing History | Recommended For You | Amazon Betterizer | Improve Your Recommendations | Your Profile | Learn More

Your Amazon.com


Featured Recommendations | Pet Supplies | Grocery & Gourmet Foods | Home & Kitchen | Electronics | Arts, Crafts & Sewing | Office Products | See All Recommendations

Pet Supplies


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Wellness Dry Cat Food...
★★★★☆ (22)
\$36.99 \$36.99
Why recommended?




Comfort Zone with Fel...
★★★★☆ (46)
\$50.99 \$20.45
Why recommended?




Wellness Complete Hea...
★★★★☆ (17)
\$36.99 \$36.99
Why recommended?



Wellness Canned Cat Food, Chicken Recipe, 12-Pack of 12-1/2-Ounce Cans
★★★★☆ (118)
\$31.08
Why recommended?



Wellness Precious Cat
★★★★☆ (178)
\$29.99 \$24.11
Why recommended?




Wellness Complete Health
★★★★☆ (7)
\$39.99 \$39.99
Why recommended?


> See all recommendations in Pet Supplies

Grocery & Gourmet Foods


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Snyder's of Hanover P...
★★★★☆ (6)
\$17.94 \$13.11
Why recommended?




Snyder's of Hanover T...
★★★★★ (2)
\$17.94 \$13.11
Why recommended?




Snyder's of Hanover M...
★★★★★ (2)
\$17.94 \$13.11
Why recommended?



Cheerios Honey Nut Ce...
★★★★☆ (47)
\$14.99 \$7.96
Why recommended?



Snyder's of Hanover P...
★★★★★ (4)
\$32.66 \$25.12
Why recommended?



Kettle Chips, Sea Sal...
★★★★★ (203)
\$20.90
Why recommended?

> See all recommendations in Grocery & Gourmet Foods

http://www.amazon.com/Wellness-Food-Chicken-12-Pack...nce/dp/B000WFORH0/ref=pd_ys_sf_s_2619533011_a1_4_p

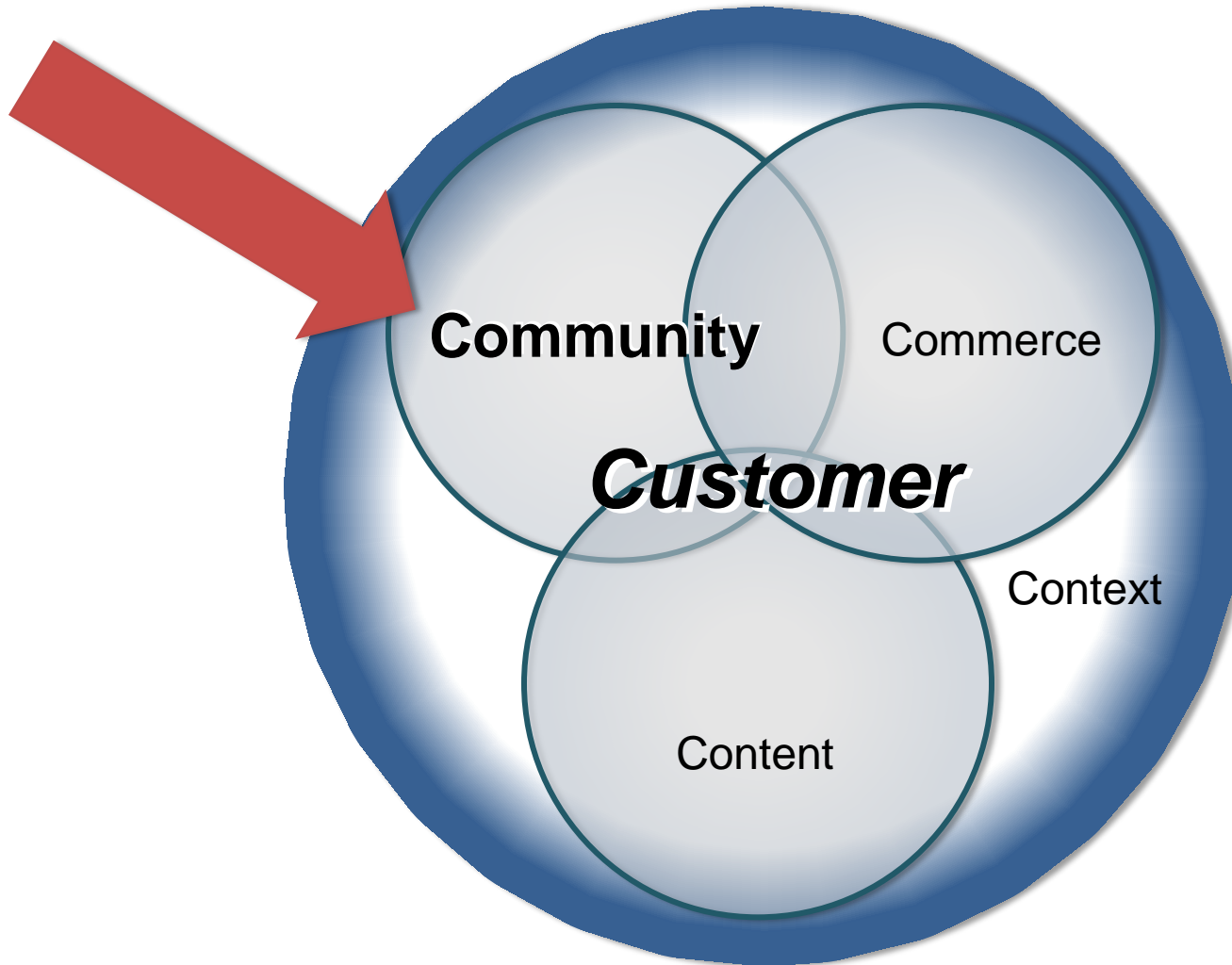
Page 1 of 17

Not Relevant (Out of Context)

The screenshot shows a Firefox browser window displaying the Facebook app interface. The main content area is a Words With Friends game board. Overlaid on the game board is a large, semi-transparent advertisement for Adobe FormsCentral. The ad features the Adobe logo, the text "Create forms and surveys easily", and a list of features: "Drag and drop form creation", "Distribute online", and "View results in real time". A "Try it free" button and a "Close" button are also visible. The background of the game board shows various letter tiles and a grid. On the left side of the screen, there is a sidebar with "Suggested Friends" and "Your Move" sections. On the right side, there are several sponsored posts from "The Vitamin Shoppe", "Nordstrom", "Free Overnight Shipping", "Dress SALE! Up to 90% Off", and "MediaMath". At the bottom of the screen, there are banners for "All-New 2013 ESCAPE" and "MoneyGram".

Pestering potential shoppers out of context is worse than no communication at all.

Community ("What Others Who Have Solved The Problem Have To Say")



Community = All of the people that a customer might involve in a purchase decision, whether known or strangers

- Retailer or brand employees
- Friends & family
- “People like me”
- Trusted reviewers
- Crowd-sourced opinions
- Etc.

Early in the buying process, community may be more focused on category aspects.

Later in the buying process, serves a validation role in helping or confirming a consumer's selection.

[Home](#) > [Community](#) > Community

COMMUNITY

Love taking on DIY projects? Share your photos, get inspired by others, and trade advice for completing all the how-to projects Lowe's Creative Ideas has to offer.



43 people like this. Be the first of your friends.

PROJECTS

[VIEW ALL PROJECTS »](#)

Garage Workbench by karen_ryan



See the results of community member karen ryan's inspired (and pretty!) garage workbench.

Posted 9/28/2009

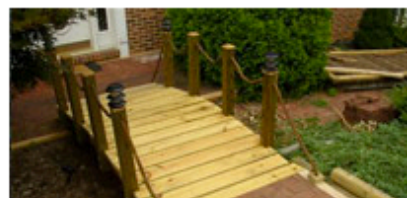
Wood Shim Chic by veryirie



See how community member veryirie made "frugalistic" wall art using wood shims and other household items.

Posted 5/15/2010

Arched Garden Bridge by dave in maryland



Learn how community member dave in maryland built an attractive new bridge walkway to his front door.

Posted 8/29/2009

[VIEW ALL GALLERIES »](#)

GALLERIES

Backyard Patio Project by orbiting

Child's Kitchen Set by j cote

Kitchen Update by autumnjoy ~

Have Creative Ideas to Share?

Join the Lowe's Creative Ideas Community to start uploading step-by-step how-to projects and images to our photo gallery.

Share the results of your DIY efforts and also comment on other members' projects, photos, and the Lowe's Creative Ideas blog.

[REGISTER TODAY!](#)



Social Media's Role: A Managed Environment for People to Share Ideas and Comments



The screenshot shows the Facebook profile of Lowe's Home Improvement. The page header includes the Facebook logo, a search bar with 'lowe's' entered, and the user 'Brian E Kilcourse' with a 'Home' link. The main content area features a large 'LOWE'S IDEA EXCHANGE' banner, a grid of home improvement project photos, and a 'Let's share the projects that inspire us.' message. Below this is the 'Lowe's Home Improvement' name and a 'Like' button. The 'About' section describes Lowe's as a retail and consumer merchandise company. The bottom navigation bar includes links for 'About', 'Photos', 'Idea Exchange', 'Pinterest', and 'Build & Grow'. A 'Highlights' dropdown is visible at the bottom center.

facebook Brian E Kilcourse Home

LOWE'S
IDEA EXCHANGE

Let's share the projects that inspire us.
Visit the Lowe's Idea Exchange Facebook tab below to see more.

Lowe's Home Improvement
1,343,367 likes · 78,718 talking about this · 287,036 were here

Retail and Consumer Merchandise
The official Facebook page for the world's favorite home improvement retailer.

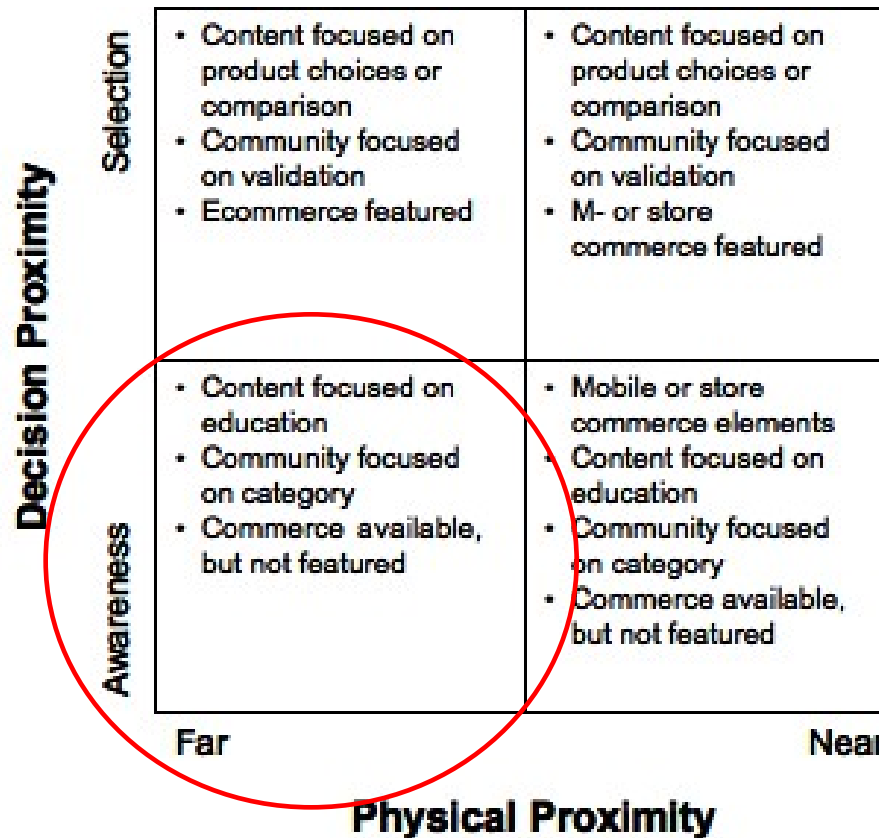
About Photos Idea Exchange Pinterest Build & Grow

Highlights

Commerce ("Exchanging Money For The Solution")



The Plus: Customer Insights



BOOTstrap Recommendations

WHAT DOES THIS MEAN FOR YOU?

BOOTstrap Recommendations

- **Be specific and congenial. There is a stunning fatigue with “generic retailing”**
- **Recognize that this is a strategic and transformative time**
- **If you’re still waiting to understand shopper behavior, you’re missing the boat**
- **Your customers like small business; try to source locally whenever possible**
- **When it comes to technology, think architecture, not bolt-on’s**
- **Finally...when it comes to Customer Service....**

Make Sure You Avoid Brand Promises Your Employees Can't Keep



Thank You!

감사합니다 Natick
Danke Ευχαριστίες Dalu
Thank You Köszönöm
Grazie Спасибо Dank Gracias
Tack
Obrigado
Merci Seé
ありがとう
תודה רבה

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