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Developing Food Retail Leaders
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THE VOICE OF FOOD RETAIL

TOMORROW'S TRENDS DELIVERED TODAY

Adapting to the Changing Consumer

A panel discussion

Today's Panelists

- Joe Crafton, CEO, CROSSMARK
- Todd Hale, Senior Vice President, Consumer and Shopper Insights, Nielsen
- Nick Hodson, US Retail Practice Leader, Booz & Company
- John Miles, Chief Technology Officer, Catalina

- Session Moderator: Thom Blischok, Chief Retail Strategist, Booz & Company

TODAY'S TOPICS

1. Key Issues Facing the Grocery Retail/CPG Industry
2. The Dynamics of Capacity and Demand
3. The Changing Shopper Landscape
4. Differentiation Through Merchandising and Marketing
5. Technology – A Turning Point at Retail
6. Closing Thoughts and Recommendations

Today’s Topic 1

Key Issues Facing the
Grocery Retail/CPG Industry

KEY INDUSTRY ISSUES

1. Over capacity
2. Industry consolidation
3. Consumer landscape
4. Granular shopper understanding
5. Price vs. Value creation
6. Digital technologies
7. Seamless retailing
8. Shopper-centric collaboration

Today’s Topic 2

The Changing Dynamics of Capacity and Demand

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Capacity and Demand

- **Looking forward we see key uncertainties:**
  - Projected flat level of per capita demand
  - Continued grocery capacity additions by non-traditional (e.g. mass, drug, dollar, club) players
  - Grocery capacity rationalization as well as additions by traditional players
  - Accelerated encroachment from internet and mobile

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Capacity and Demand *(continued)*

- **By 2025, we expect:**
  - Supercenters to have reached saturation in all but the most urban markets
  - Dollar stores to be approaching saturation at about ~36,000 stores
  - Online grocers to command ~11% of the market
  - Overall industry to have added ~290 million square feet

Today’s Topic 3

The Changing Shopper Landscape

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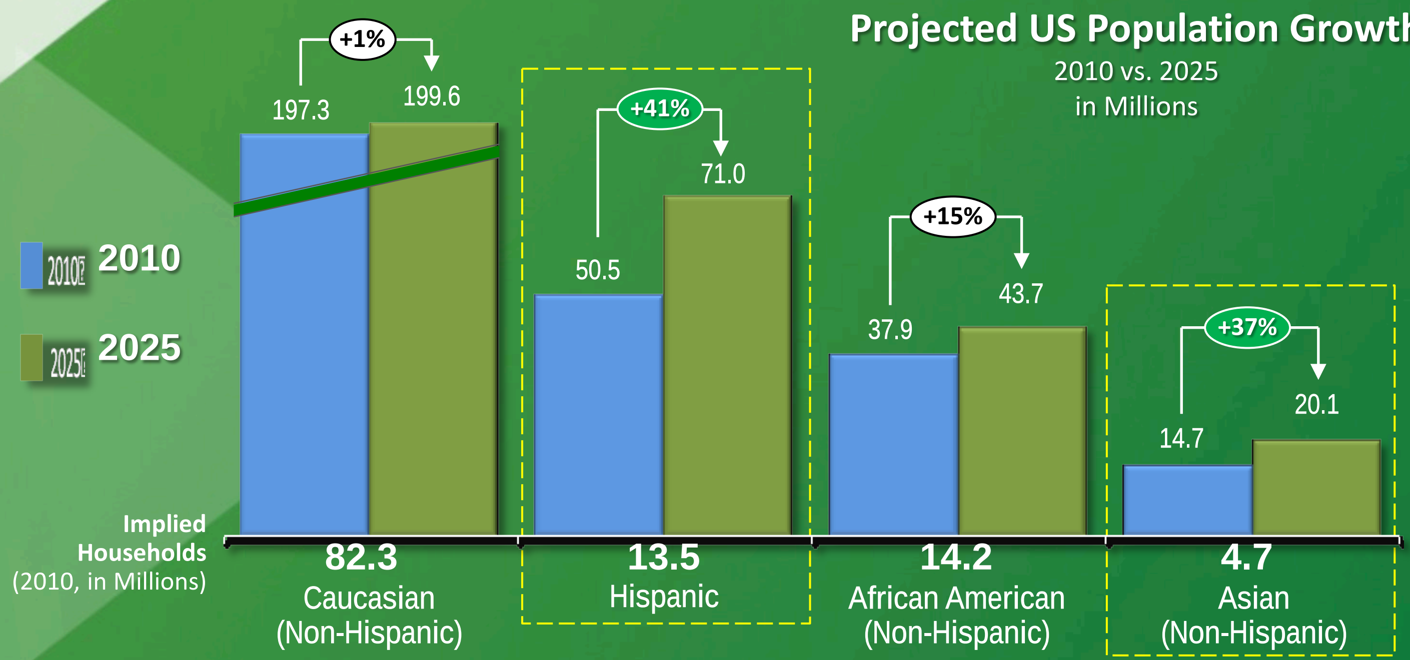
Shopper Landscape

- A Change in Ethnic Composition
  - Hispanics and Asian population growth – 41% and 37%
  - Ethnic-based marketing and merchandising – a growth opportunity for grocers
  - The Ethnic store landscape will evolve as centers of population develop
  - Age-based shifts will result in a 7% increase in 65+ year olds – all other age segments FLAT

3

US Population Dynamics



Note: Hispanic origin is considered an ethnicity, not a race. Hispanics may be of any race.
Source: US Census data; Booz & Company analysis

3

The Path to 2025 -- Choices *(continued)*

- **Six consumer defined choices and trade-offs:**
  - ✓ Low prices
  - ✓ Sale items
  - ✓ High quality fresh
  - ✓ Varied selection
  - ✓ Convenient location
  - ✓ Good customer service

- **Shopper survival strategies:**
  - ✓ Living with less,
  - ✓ Seeking discounts,
  - ✓ Private brand purchasing

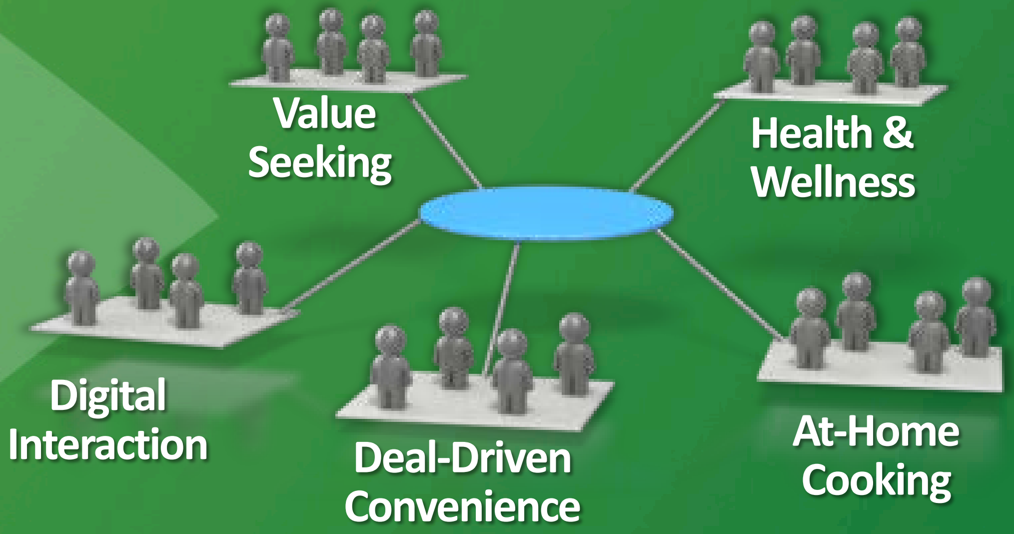
Today’s Topic 4

Differentiation Through Merchandising and Marketing

4

Merchandising

- Five key platforms are driving purchase of groceries today – we expect these to continue:



Display Activity Landscape

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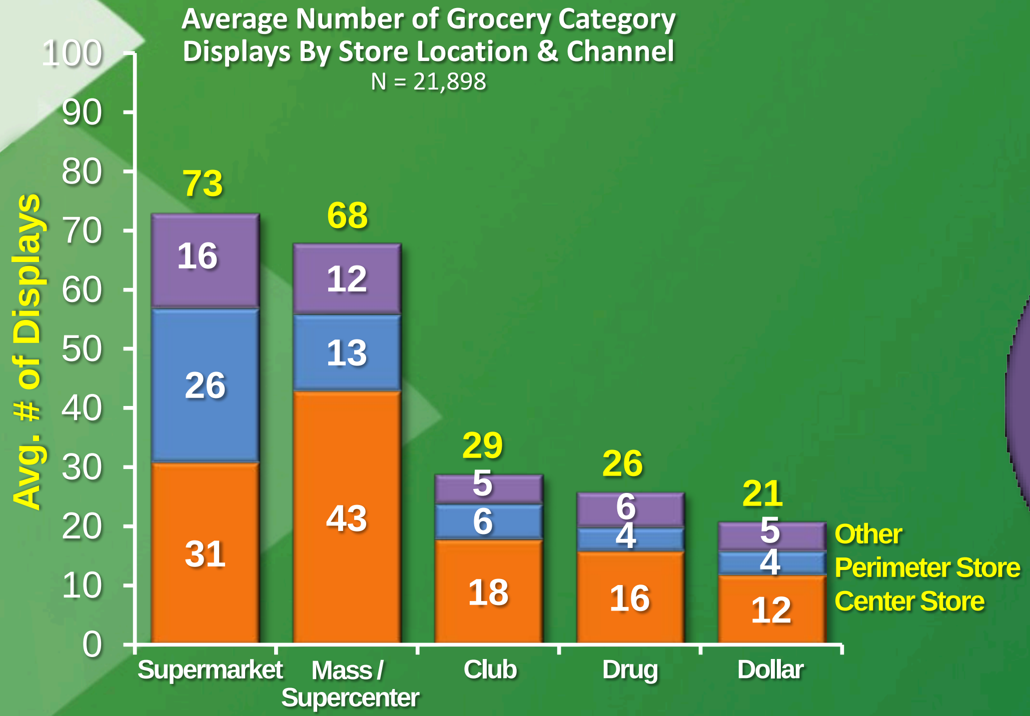

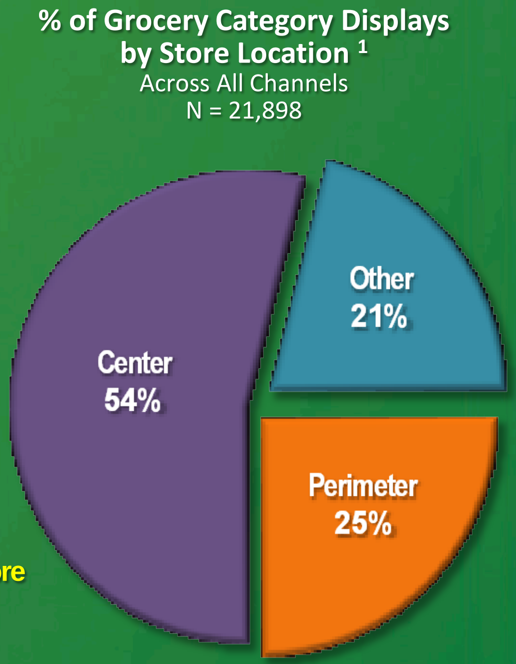

1) Center store includes the following departments: Pharmacy, Frozen, Alcohol, HBC, and All Other Center Store. Perimeter store includes: Bakery, Meat/Seafood/Poultry, Dairy, Deli, Produce, and all other Perimeter Store. Other includes: Outside of Store and Front/Lobby/Checkouts.

Source: 2013 CROSSMARK In-Store Marketing and Merchandising Assessment; Booz & Company Analysis

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Marketing *(continued)*

- **Loyalty programs – an area of significant "unmet need"**
  - From "Aligned rewards" – gas/grocery
  - To "Total Wallet Loyalty" – gas, grocery, drug, telecommunications, department store, addressing ~50% of household income; launched by 2014
- **Experimentation with elements of the next generation shopping experience today**
  - Perimeter
  - Center Store

Today’s Topic 5

Technology – A Turning Point at Retail

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Technology

- **The single greatest catalyst of change at retail**
  - Consumer adoption of mobile smart devices
  - Big Data – the challenges of scalability, affordability, end effective application

  - In-store technologies – automate the in-store experience as well as improve operating
  - “Seamless retailing” – emerging table stakes

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Technology

- **The New Smartphone**
  - 10X more powerful than today
  - 6 -10X more on-board memory
  - New “personalized” form factor
  - On always “communicating for you”
  - 6X – 8X more power life
  - 100 plus applications “just for you”
  - 5GL as the New Standard

Today’s Topic 6

Closing Thoughts and Recommendations

Recommendations

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“If there were one thing that you believe the industry must do to grow and continue to be successful, what would that be?”