In-Store Merchandising Innovation

Table Stakes or Differentiators?

June 12, 2013

CROSSMARK
The Way To Market

Overview

- Today's webinar highlights merchandising insights and opportunity areas identified as a component of Food Retailing 2013: Tomorrow's Trends Delivered Today

"Is the grocery industry in the midst of a structural transformation driven by major consumer, competitive, and economic forces?"

"How will the changing shopper landscape alter food retailer strategies and tactics?"

"What are the new capabilities (merchandising, marketing, technology) which will drive lasting differentiation?"

- The Story on Merchandising:
  - Basis for Today's Merchandising Platforms
  - Current Merchandising Landscape
  - Key Growth Enablers

Grocery Retailers Must Address Five Key Consumer Drivers

KEY CONSUMER DRIVERS	
Price/Value	Low prices, sale items, special savings, coupons, loyalty programs
Quality	High quality fresh produce and other fresh foods
Assortment	Strong selection of special items (e.g. ethnic, organic, special diet, locally-sourced)
Convenience	Convenient location, easy to shop
Overall Experience	Friendly, customer service, in-store services, self-checkout, product samples & information

Source: Booz & Company 2013 Trends Consumer Survey

A Deeper Understanding of Key Behavioral & Attitudinal Sets is Critical to Effective Merchandising

KEY CONSUMER DRIVERS	BEHAVIORAL & ATTITUDINAL SETS	
Price/Value	Value-seeking	Low cost, quality, and price comparability
Quality		
Assortment		
Convenience		
Overall Experience		

Source: Booz & Company 2013 Trends Consumer Survey

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Price/Value	Value-seeking	Low cost, quality, and price comparability
Quality	Health & Wellness	Nutritional labeling and availability of natural and organic products
Assortment		
Convenience		
Overall Experience		

Source: Booz & Company 2013 Trends Consumer Survey

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Convenience		
Overall Experience		

Source: Booz & Company 2013 Trends Consumer Survey

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Convenience	In-Store Support/ Store Selection	Multi-store shopping based on deals and convenience, and an enjoyable, simple shopping experience
Overall Experience		

Source: Booz & Company 2013 Trends Consumer Survey

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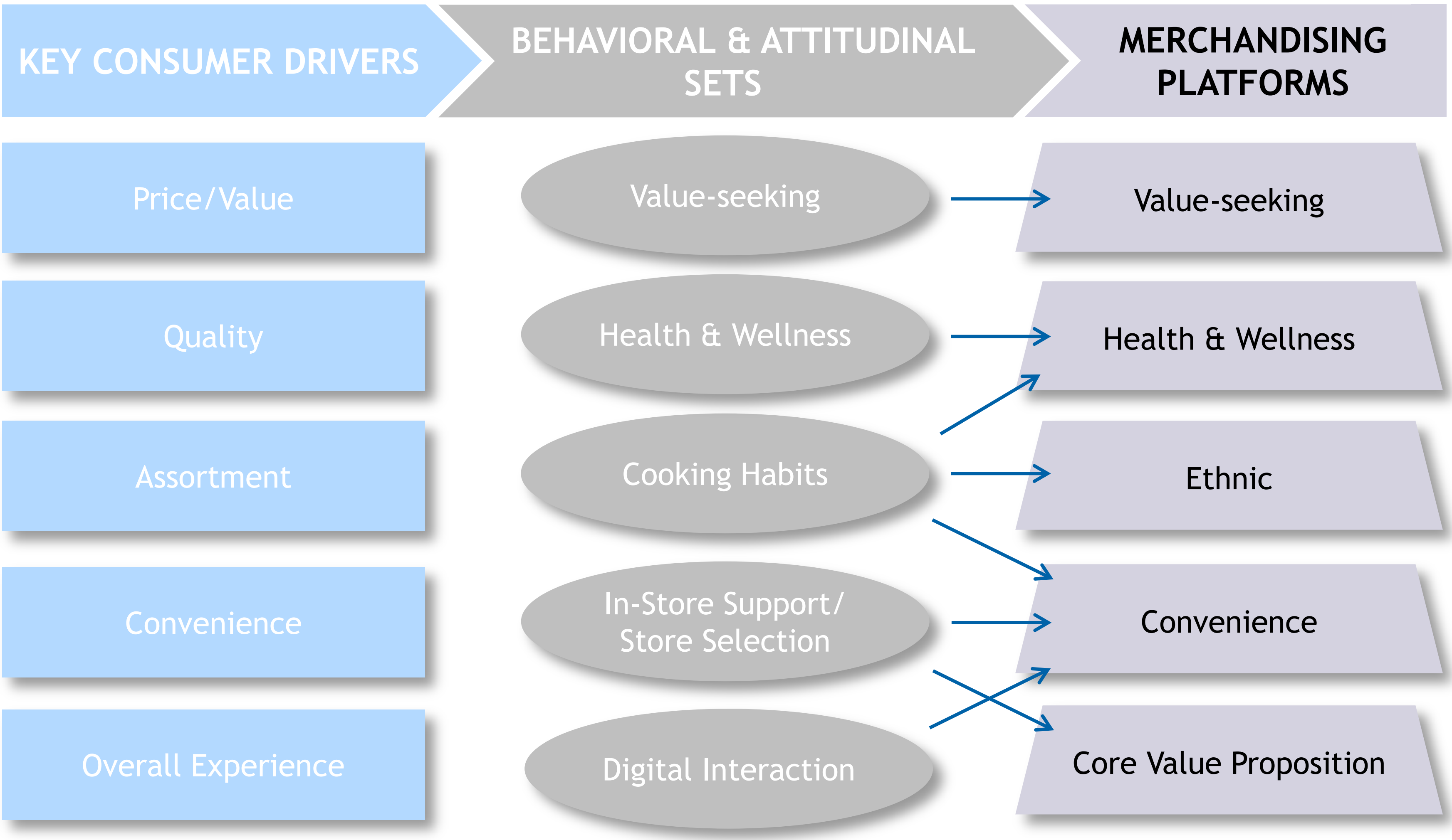
Convenience	In-Store Support/ Store Selection	Multi-store shopping based on deals and convenience, and an enjoyable, simple shopping experience
Overall Experience	Digital Interaction	Currently non-perishable items drive online behavior; also use smartphone to aid in shopping

Source: Booz & Company 2013 Trends Consumer Survey

Five Key Merchandising Platforms are Driving Purchase of Groceries Today - We Expect These to Continue



Source: Booz & Company 2013 Trends Consumer Survey

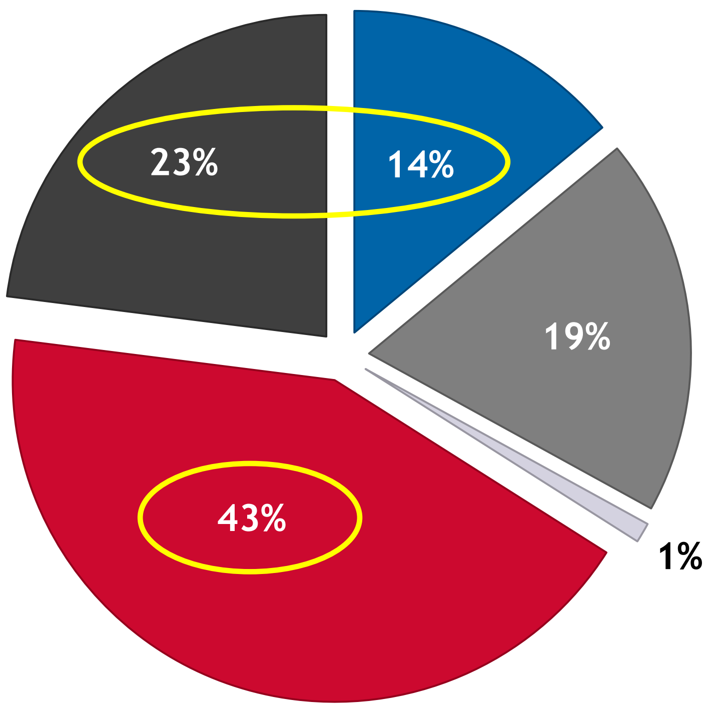
Current Merchandising Landscape

- Survey of 510 stores across five channels: Supermarkets, Mass/Supercenters, Drug, Club, Dollar
- In-store audit of 27,000+ individual displays

Display-based Merchandising is Oriented Heavily Toward Value and Convenience

- Capacity to display beyond Core Value Propositions will become key to differentiation
- Retailers must better leverage the fact that they are essentially a media location that sells merchandise; missing “messaging” opportunities (23%) to influence shoppers and drive incremental sales in many areas of the store

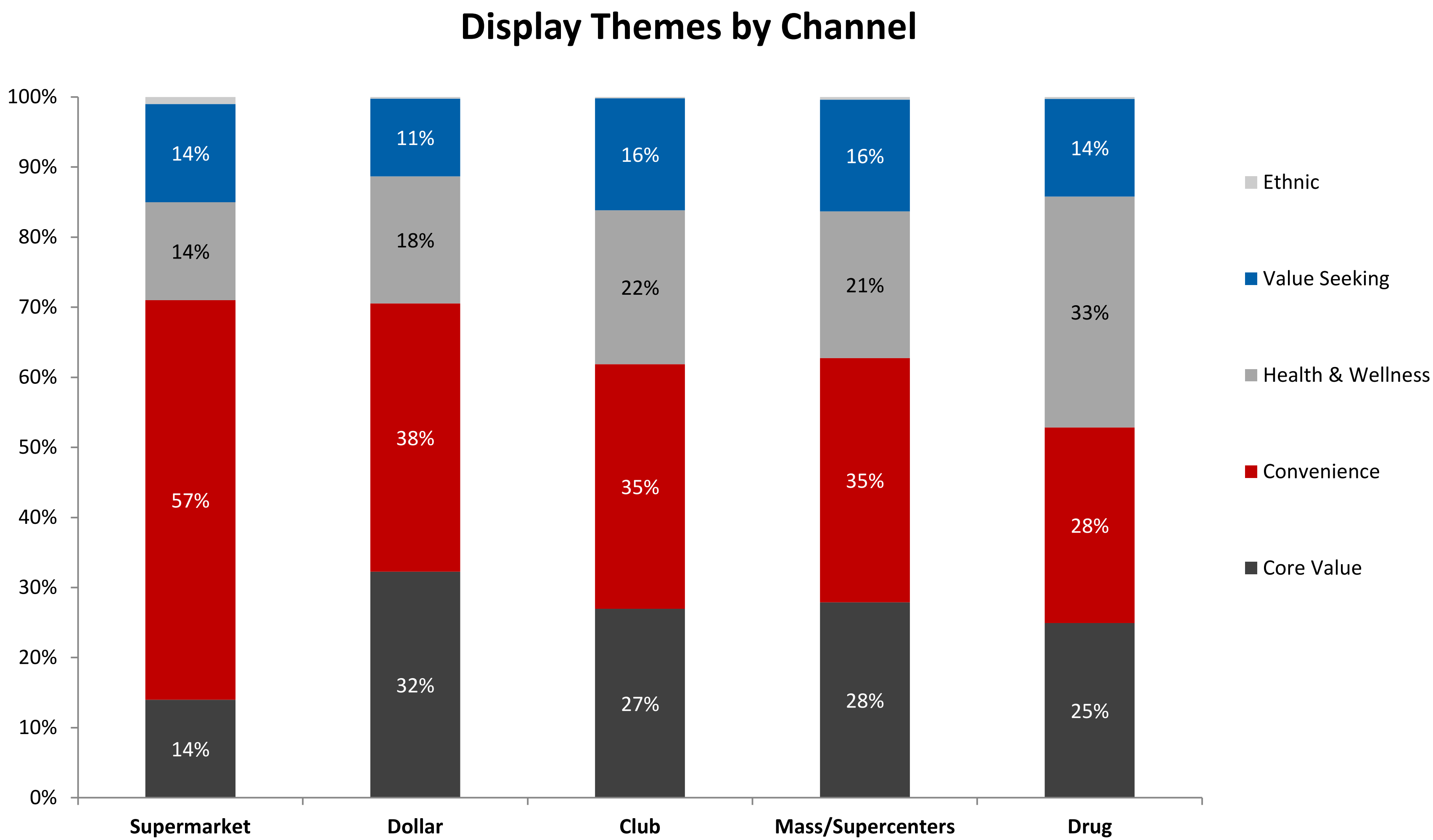
Types of Displays*
Across All Channels
N = 21,898



Value-seeking	• Special Price Offers
Health & Wellness	• Organic/Sustainability/Eco-friendly
Ethnic	• Hispanic/Asian/Other Ethnic
Convenience	• Snack/Meal Solutions; Other Solutions/Occasions
Core Value Proposition	• Display with no special price or offer

Source: 2013 CROSSMARK In-Store Marketing and Merchandising Assessment: Booz & Company analysis
* Grocery displays only

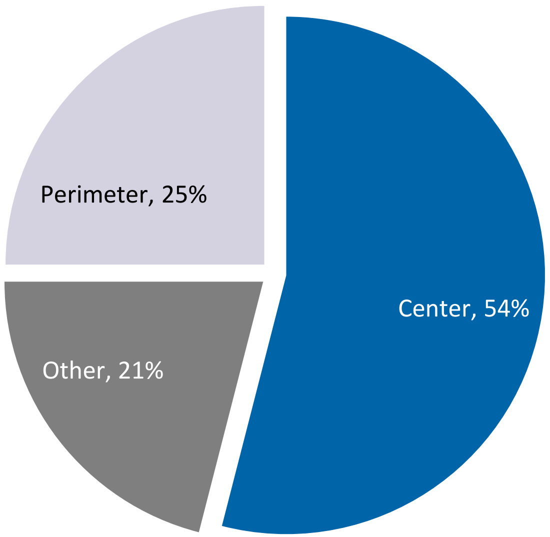
Display Themes Vary By Channel; Supermarkets Lead in Convenience and Ethnic, But Lag in Core Value and H&W



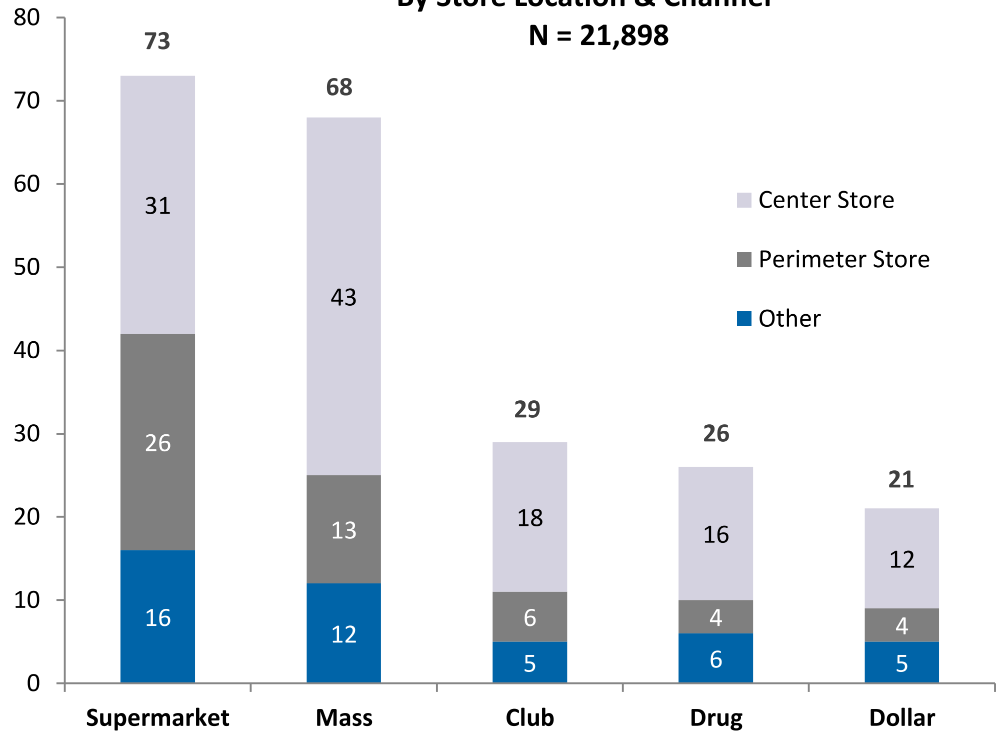
Source: 2013 CROSSMARK In-Store Marketing and Merchandising Assessment: Booz & Company analysis

Supermarkets Have Higher Display Presence on the Perimeter Relative to Other Channels

% of Grocery Category Displays
by Store Location* All Channels
N = 21,898

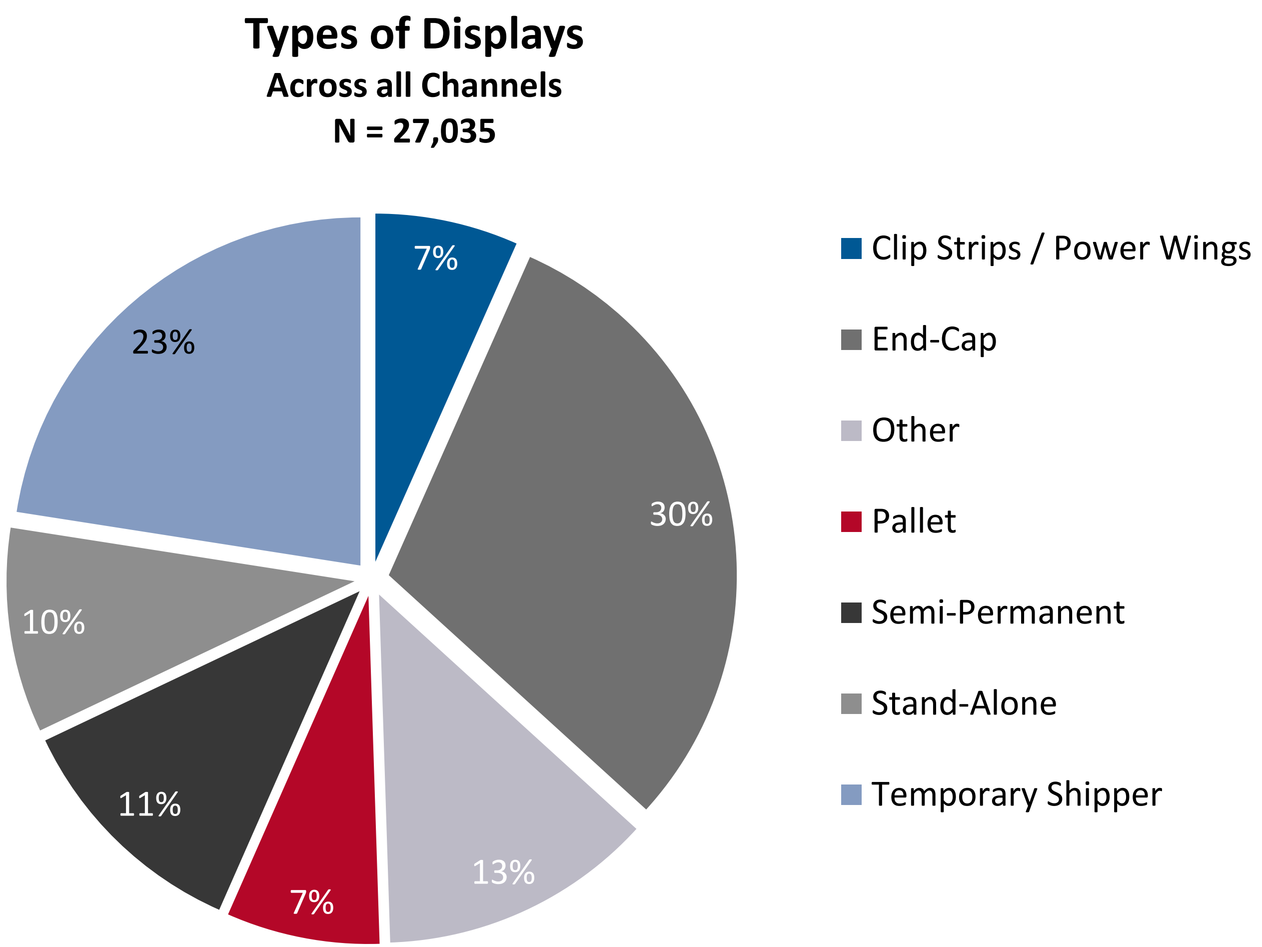


Average Number of Grocery Category Displays
By Store Location & Channel**
N = 21,898



*Centre 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.
** Average number of grocery category displays per store by channel discounted 5% for Supermarkets, 30% for Mass/Supercenter, 25% for Club, 20% for Drug, 40% for Dollar -- to account for non-grocery displays surveyed
Source:2013 CROSSMARK In-Store Marketing and Merchandising Assessment; Booz & Company Analysis

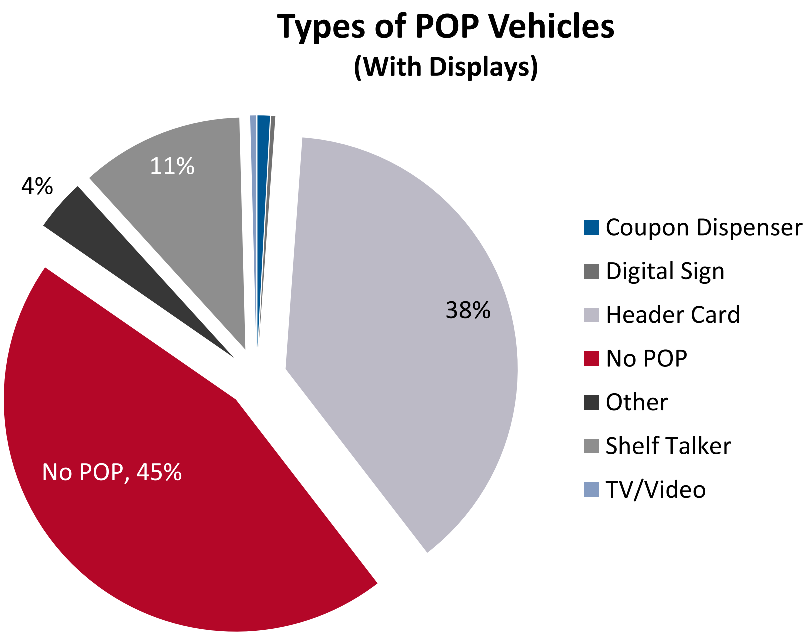
End-Caps and Temporary Shippers are Dominant Types of Displays Across Channels

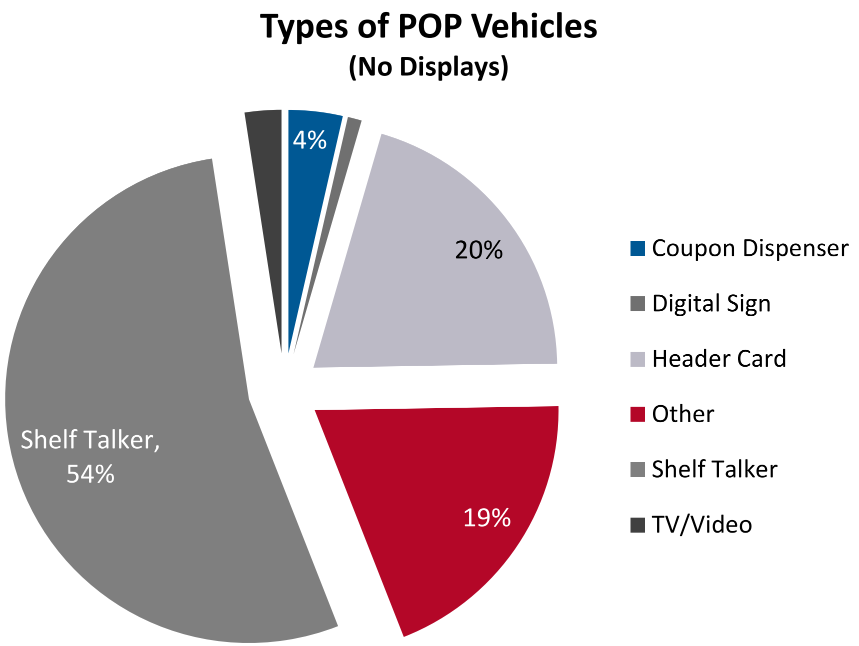


Source: 2013 CROSSMARK In-Store Marketing and Merchandising Assessment: Booz & Company analysis

Header Cards and Shelf Talkers Dominate as Primary POP Vehicles Across Channels

- Technology is still in the back seat relative to conventional types of POP
- 38% of displays have header cards as the POP type where as 45% do not have any POP associated
- Header cards and shelf talkers represent 74% of POP vehicles (non-displays)
- Prevalence of QR codes and bi-lingual messaging on displays is minimal; across all channels/departments, less than 10% of displays have QR codes, and less than 3% have bi-lingual messaging



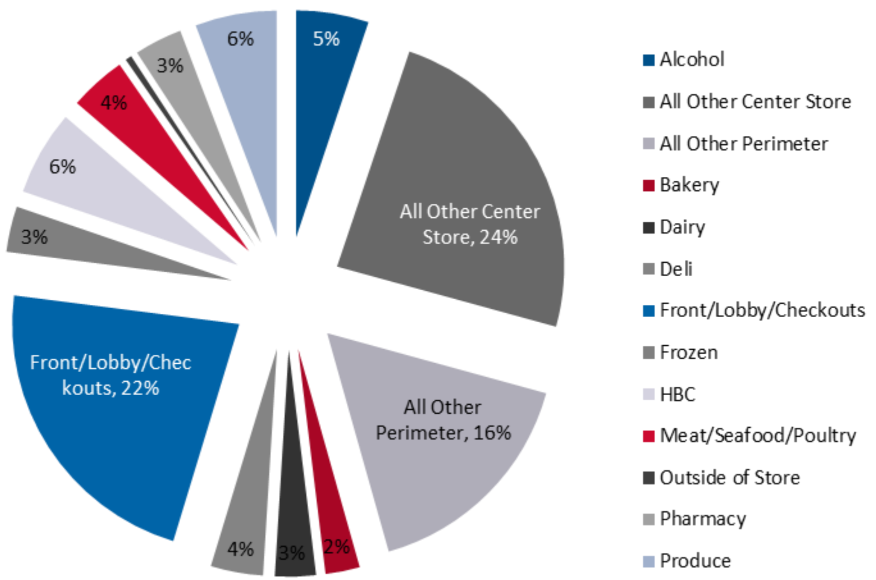


Source: 2013 CROSSMARK In-Store Marketing and Merchandising Assessment: Booz & Company analysis

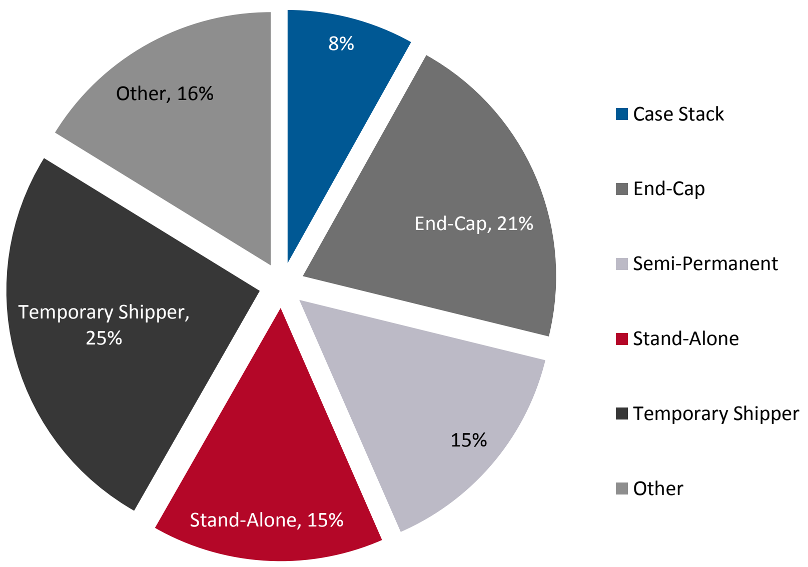
Supermarkets Summary

- Across all departments end-caps and temporary shippers are the most common forms of displays
  - Case stacks are most commonly used in the alcohol department (30%)
  - Semi-permanent and stand-alone displays are more prevalent in Bakery (62%) and Dairy (40%)
- Meal solutions and special price are generally the most common type of themes associated with displays

Display Location



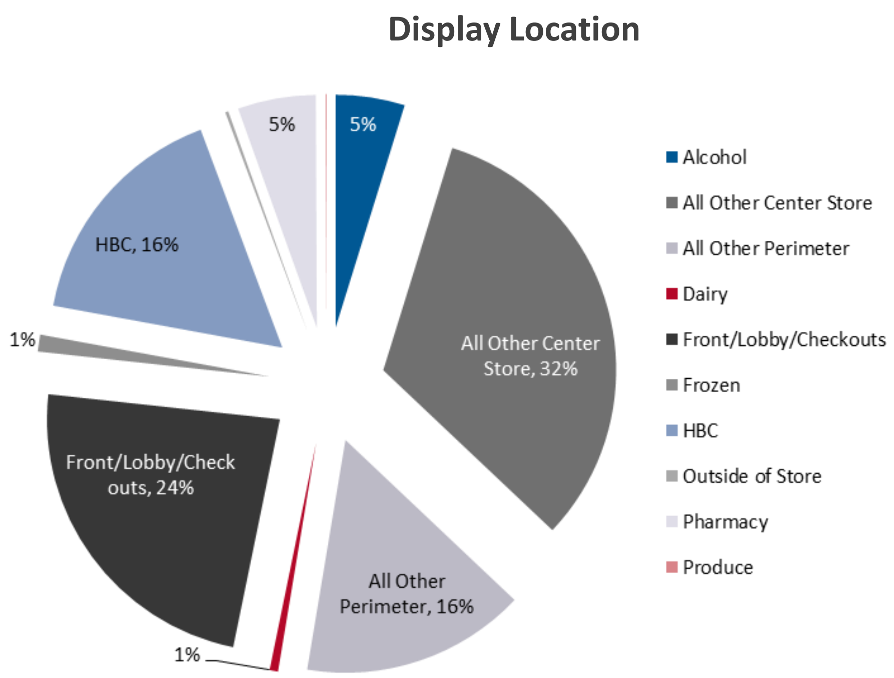
Display Type

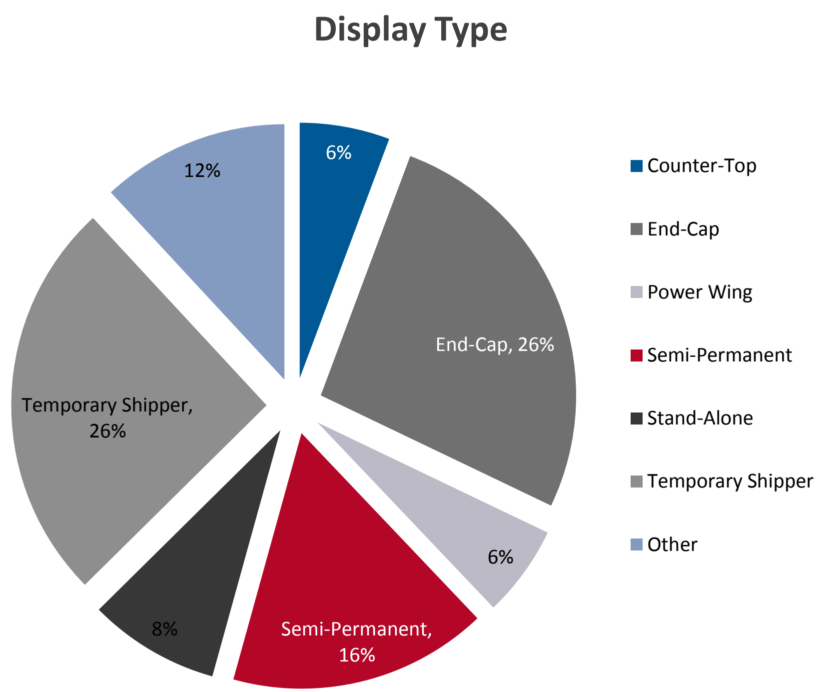


Source: 2013 CROSSMARK In-Store Marketing and Merchandising Assessment: Booz & Company analysis
* HBC does not include displays associated with Cosmetic products

Drug Summary

- Across all departments end-caps and temporary shippers dominate as the most common display types
- Snack solution and special price offers are the most common types of themes for displays
  - Health & Wellness theme dominates in HBC and Pharmacy

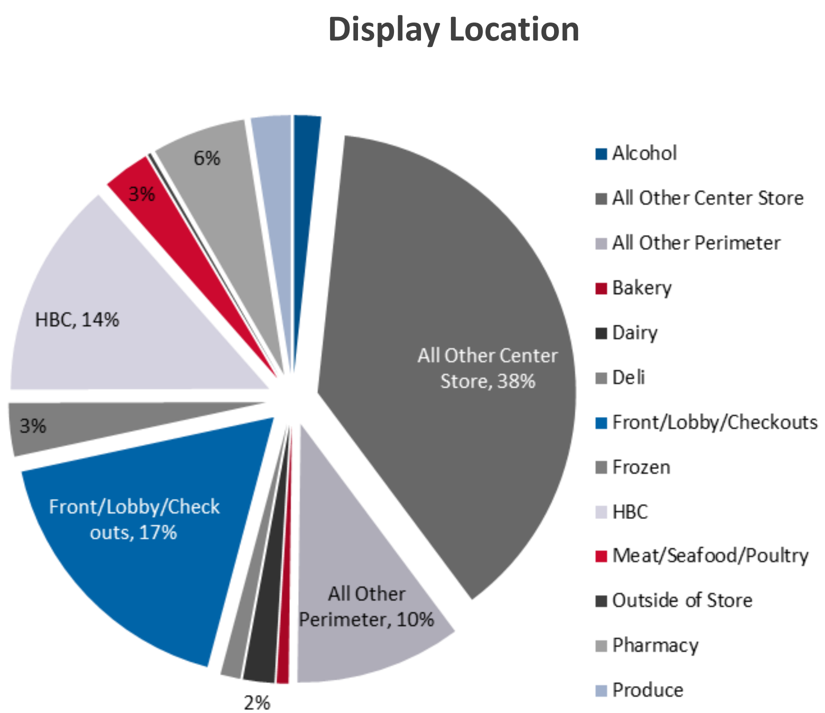


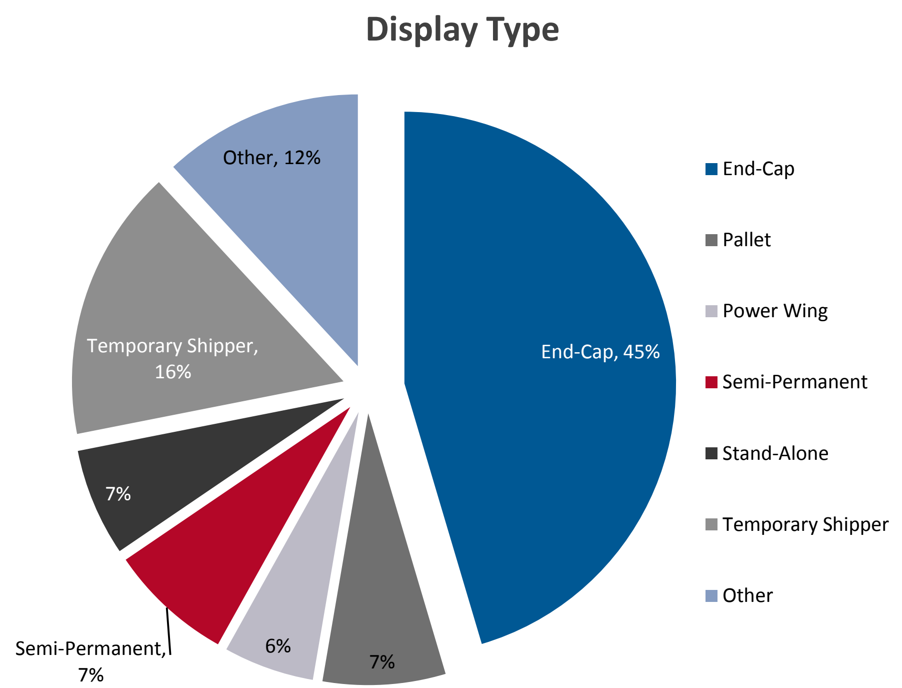


Source: 2013 CROSSMARK In-Store Marketing and Merchandising Assessment: Booz & Company analysis
* HBC does not include displays associated with Cosmetic products

Mass Summary

- 56% of the displays are either in the center store or the front lobby
  - However, HBC and Pharmacy combined account for 24% of the displays
- Across all departments end-caps and temporary shippers are the most common forms of display vehicles
- Most commonly used POP type is header card
  - Shelf talker is the second most commonly used POP type



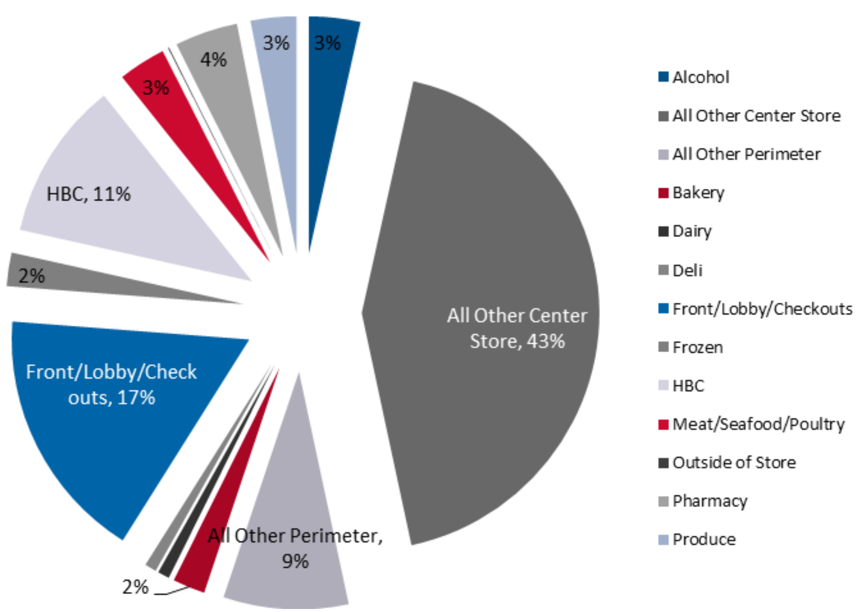


Source: 2013 CROSSMARK In-Store Marketing and Merchandising Assessment: Booz & Company analysis
* HBC does not include displays associated with Cosmetic products

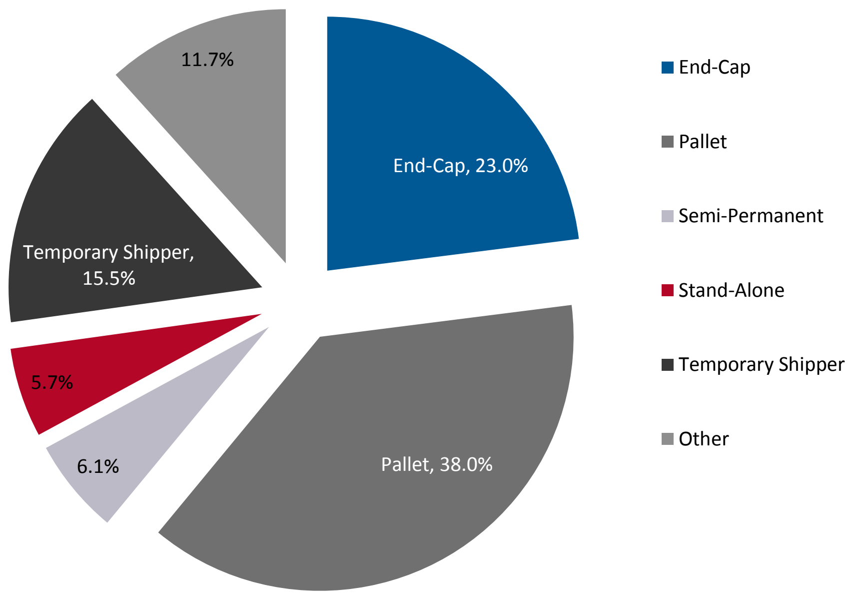
Club Summary

- Pallets and end-caps are generally the predominant vehicles for display
  - Bakery is an exception where counter-tops and end-caps are the leading vehicles of display
- Snack solutions and special price offer are the most common themes for displays
  - Health & Wellness dominate as theme in HBC and Pharmacy
  - Across many departments “no special theme” is common
- Header cards are the predominant types of POP on displays

Display Location



Display Type

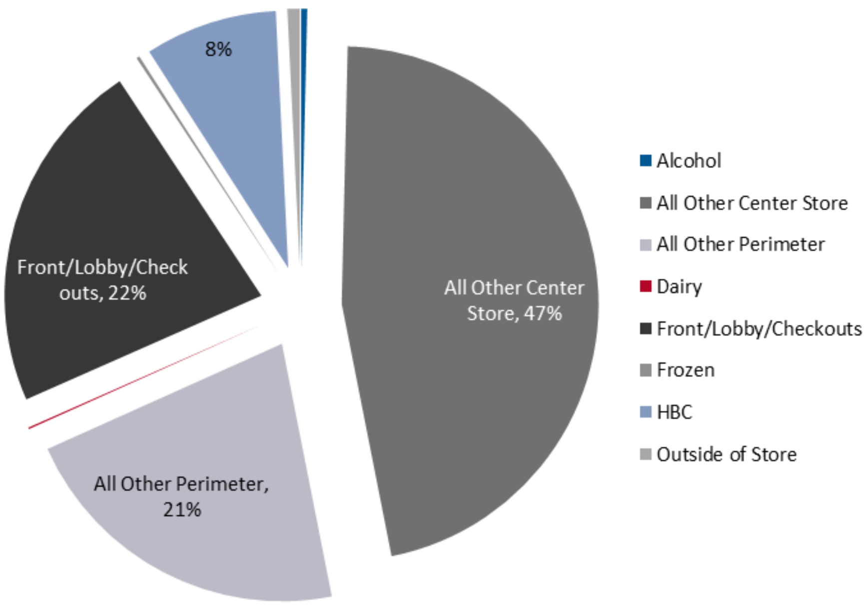


Source: 2013 CROSSMARK In-Store Marketing and Merchandising Assessment: Booz & Company analysis
* HBC does not include displays associated with Cosmetic products

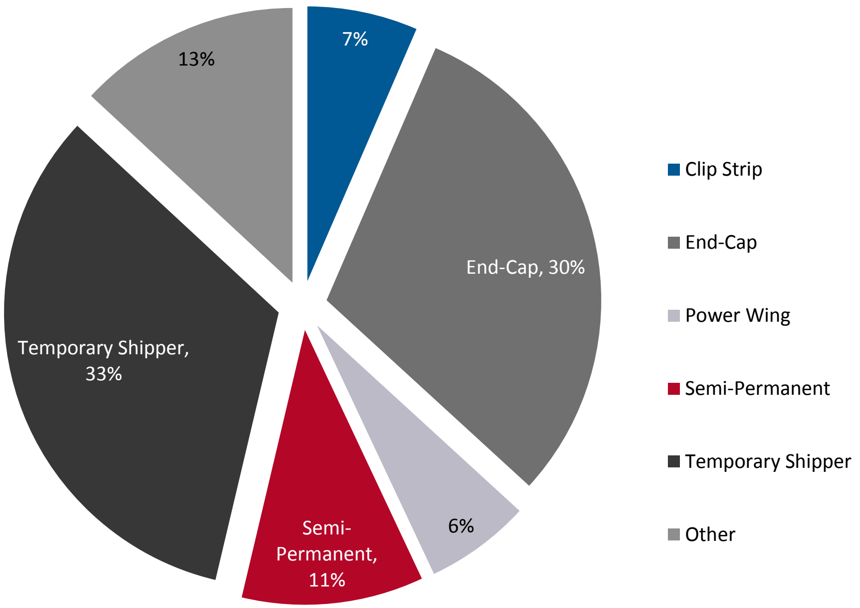
Dollar Summary

- End-caps and temporary shippers are the most commonly used forms of displays
  - 30% of displays are end-caps and 33% of displays are temporary shippers
- Snack solutions and special price offers are generally the prominent themes for displays
  - Health & Wellness dominates in HBC

Display Location



Display Type



Source: 2013 CROSSMARK In-Store Marketing and Merchandising Assessment: Booz & Company analysis
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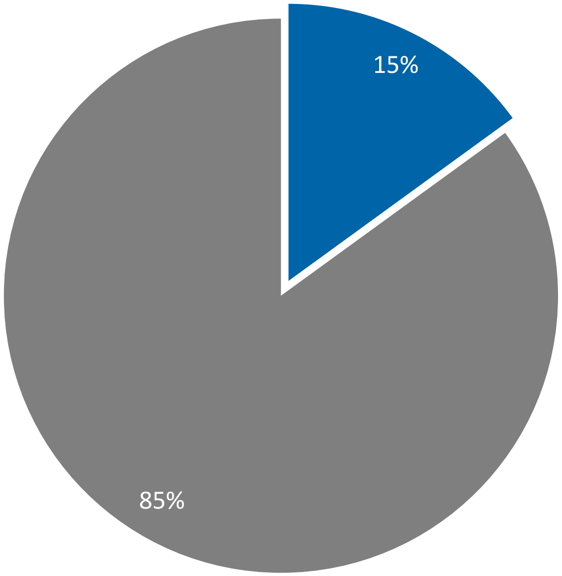
As Retailers Continue to Expand Their Private Brand Strategies, Displays Will Help Drive Performance

- National Brands today dominate the store floor in terms of promotional display space
- Retailers are occupying more of the precious shelf space than floor space
- While only 15% of displays are associated with promoting Private Label products, it is expected to increase as retailers balance the growth of their brands with the need for presence and funding from national/regional brands
- Private Label products are on display most commonly in Bakery and Meat/Seafood/Poultry departments

Private Brand vs. National Brand Displays
Across all Channels
N = 21,898



Perspective from the C-Suite

- *"We will continue to develop our private brands as a strategy to continue to improve our margins. We believe a powerful differentiator for us will be how we capitalize on private brands with our shoppers and markets."*

  \- CEO, Regional Retailer

- *"We are increasingly promoting private brands with national brands. What we are finding is that these multi-brand promotions are working. Recently we began offering private-brand-only promotions and they have been very successful – we expect to do more."*

  \- Chief Merchant, Regional Retailer

Question: Are there any private label products on display?
Source: 2013 CROSSMARK in-Store Marketing and Merchandising Assessment: Booz & Company analysis

Merchandising Display Implications

- Recognize stores as media location that sell merchandise and leverage all "messaging" opportunities to influence shoppers and drive incremental sales
  - In-store merchandising and displays provide solutions, immediate gratification, and impulse purchase opportunities that cannot be matched by online retailers
- Health & wellness will continue to be a key trend driving shopper behavior
  - The next level of "fresh and healthy" solutions should connect health & wellness with "save me money, save me time, and make me feel like I'm bringing unique solutions to my family and friends."
- Private Label merchandising will be both an opportunity and challenge (for manufacturers and retailers)
  - Presence of Private Label brands will grow as retailers increasingly reflect their value proposition as a point of differentiation, not just through service but products as well
  - Retailers and manufacturers must collaborate to maximize profitability of merchandising opportunities
- As technology gains more prominence over time, traditional "tried & true" merchandising vehicles should not be ignored
  - Retailers and manufacturers will work closely together to integrate technology with actionable data before adopting a widespread deployment

Key Growth Enablers

Beyond Displays, Retailers Must Offer Other Benefits Integrated with Merchandising

- **Hyper-localization** (Assortment, Messaging, Services)

  "The selection of products and services is perfect for me."

  Merchandise offerings and offers/services based on local market tastes and preferences have become table stakes, and excelling at this efficiently "EVERY DAY" is the success key.

- **Personalized Pricing and Promotions** (Precision Targeting)

  "I want it my way…it's for me and my family."

  We live in a "me" world of personalized needs that are expected to be met with relevant content – the NEW table stakes, and only further granularity will be demanded.

- **Seamless retailing** (In-store/Online/Mobile)

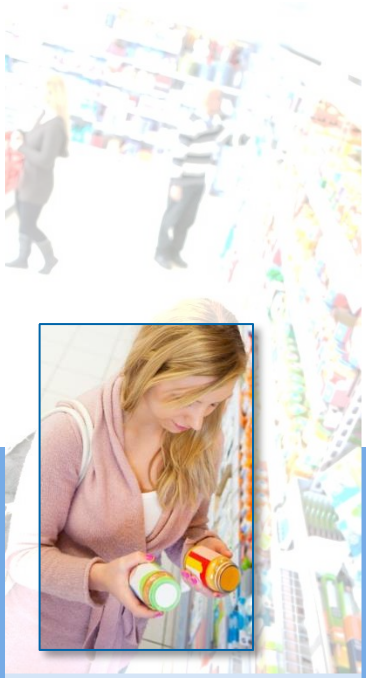
  "Make it easy for me - ALWAYS."

  In an ever-changing world of speed, clutter and technology, the total shopping experience must be seamlessly integrated, with online/mobile shopping and pick-up sections/windows being simple and convenient.

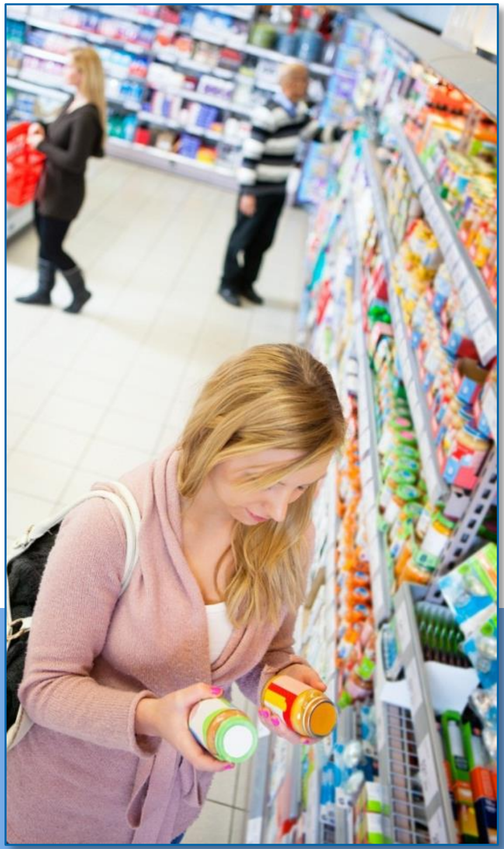
Total "Retailer Coherence" is Key to Differentiation and Growth

Source: Booz & Company

Retailers Must Develop a "Total Wallet Loyalty" Strategy That Incorporates Web and Mobile and Other Partnerships



Shelf



Store

Holistic

Source: CROSSMARK VIEWPOINT Series (Q4-2012), and Booz & Company

In Summary, Three Types of Capabilities (Enablers) in Merchandising Will Be Required for Sustainable Growth

1

Foundational

- Price/Value
- On-Shelf Availability
- Basic Assortment
- Cust.Service/Shopper Engagement
- Convenience (Solutions)
- Health & Wellness Merchandising
- Ethnic Product Merchandising

2

Leading Edge

- Localized Assortment
- Departmental Upgrades
- Coherent Store Experience
- Web & Mobile Integration
- Ethnic Sections

3

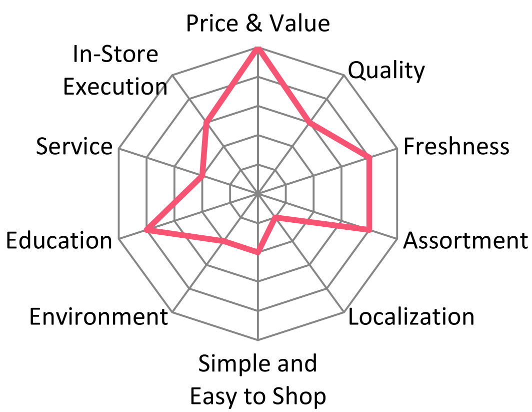
Next Generation

- Hyper-localization
- Personalized Pricing & Promotion
- Geo-Shopping
- Seamless Retailing
- Mobile "Everything"
- "Store-within-a-store" (e.g. Ethnic, H&W)

Appendix

Different Trip Types Require Unique "Value Positioning"

Price Conscious Stock Up



Experience Driven Stock Up

- Willing to compromise on shopping experience
- Average performance on quality, freshness, assortment, in-store execution satisfactory

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- High bar for overall shopping experience
- Less forgiving for poor in-store execution

- Simplicity & ease to shop, good value essential
- Average performance on assortment, service, in-store execution, quality satisfactory

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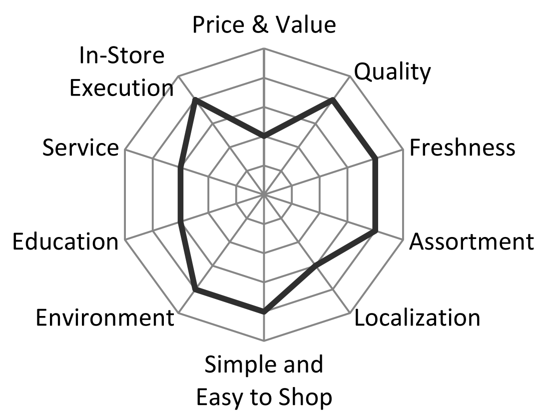
- Relatively high bar for shopping experience
- Less price sensitive

- Convenience of shopping experience essential
- Basic needs met for assortment, quality and service

Price Conscious Fill-In

Experience Driven Fill-In

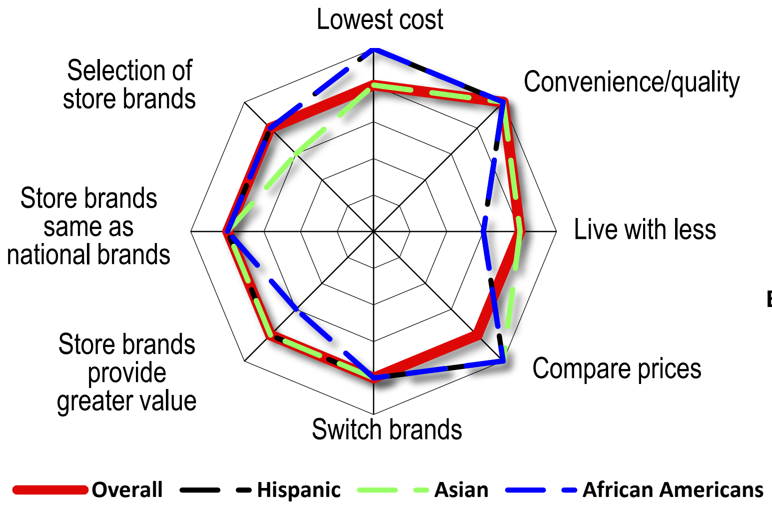


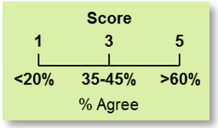
Immediate Convenience

Source: Booz & Company

As Well, Different Merchandising/Marketing Platforms Demand Unique Offer Structures – *Value Seeking Shopping*

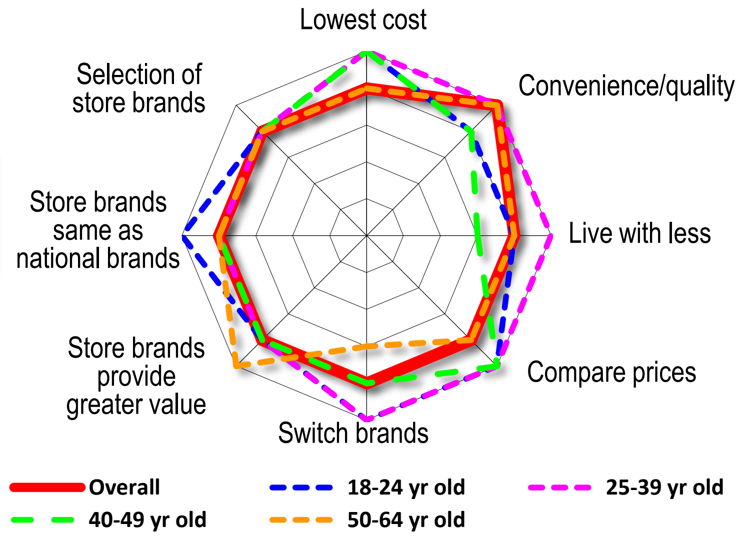
Value Seeking Behaviors by Ethnicity[1]





Bolded Behaviors = Highest Score

Value Seeking Behaviors by Age[1]



Perspective

1. Hispanics seek to feed their household with the lowest overall cost. In addition, they compare prices and seek both convenience and quality
2. Asian shoppers are driven by convenience and quality as well as price comparison
3. African Americans cite cost, convenience, and price comparison as most important of all value seeking preferences

Perspective

1. 25-39 yr. olds exhibit the greatest 'complexity' in shopping behavior of any age group - wanting the greatest value for their money
2. The 50-64 yr. olds are apt to seek store brands as well as search out convenience and quality
3. 18-24 yr. olds (today's Millennials) are driven by lowest cost, store brands equality, and price comparison

1) Q17: *Do you agree with the following statements?* Rank your preference on a scale of "1-Strongly Disagree" to "7-Strongly Agree," % Agree represents "Top 3 Box" scores
Note: Hispanic origin is considered an ethnicity, not a race. Hispanics may be of any race. Caucasians, African Americans and Asians Alone (Non-Hispanic).

Source: Booz & Company

Display Type Definitions

- **Temporary Shipper** (temporary manufacturer display is constructed of predominantly cardboard material that is identified by a manufacturer's logo or brand name; the identification may be on the fixture, header card or riser card)
- **Semi-Permanent** (semi-permanent manufacturer display is a durable fixture made of wood, metal, or plastic and is identified by a manufacturer's logo or brand name)
- **Counter-top** (display located on counters throughout the selling area of the store. i.e. check out area and food preparation area; does not include coolers)
- **End-Cap** (end of aisle shelf section facing main aisle)
- **Pallet** (display sitting on top of a wooden or plastic pallet)
- **Stand-Alone** (grouping of products that are either on a structure that is attached to a shelving unit or the products themselves are stacked in a way to be free standing)
- **Case Stack** (delivery box for item that has been cut open by retailer and presented or stacked)
- **Kiosk** (small stand-alone structure or device used to dispense information/coupons or vend merchandise)
- **Power Wing** (display hanging on the side of an end-cap, usually made of metal)
- **Cooler** (display requiring continuous refrigeration; coolers located on Counters are collected as Cooler)
- **Clip Strip** (plastic or metal strip in which products are inserted or held by pressure and which hangs vertically from a shelf or display)

Source: CROSSMARK