Tomorrow's Trends Delivered Today

Food Retailing 2013

Technology Deep Dive

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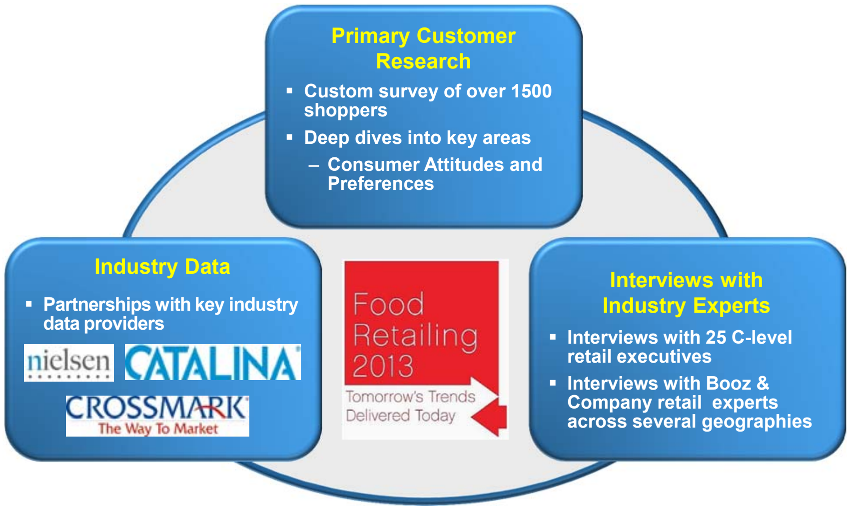
Topics for Today's Discussion

- **Introduction and Objectives**
- Summarizing Food Retailing Trends
  – Capacity and Demand
  – Shopper Landscape
  – Merchandising and Marketing Innovation
- Technology as a Strategic Enabler
- Guide to Investing in Technology
- Creating Differentiation

Our research triangulates data from multiple industry and consumer sources



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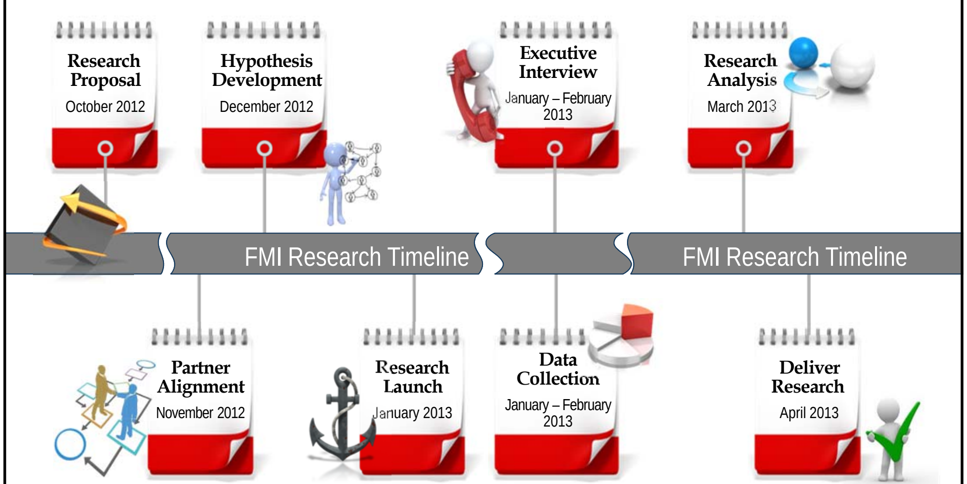
Our research effort began in January 2013 and was highlighted at FMI Future Connect April 30th, 2013.



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Our conversation today centers on exploring three critical future growth issues at retail

Key Industry Questions

- *"Is the **grocery industry in the midst of a structural transformation** driven by major consumer, competitive, and economic forces?"*
- *"How will the **changing the changing shopper landscape** alter food retailer strategies and tactics?"*
- *"What are the **new capabilities** (merchandising, marketing, technology) which will drive lasting differentiation?"*

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  - **Shopper Landscape Transformation**
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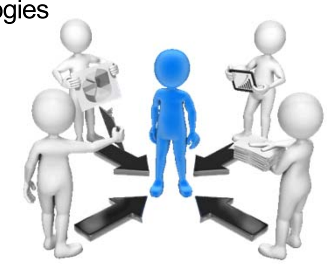
Retailer and CPG Manufacturer C-Level Perspectives On Current and Emerging Industry Challenges

- Growing **concern about capacity** across all channels for grocery retailing
- Continued acceleration of **industry consolidation**
- Changing **dynamics of consumer behaviors** including ethnic differentiation
- Absolute need for **understanding the shopper**
- Impact of **price vs. value creation positioning** strategies (across merchandising and marketing)
- Acknowledged potential **impact of digital** technologies
- Growing need for a more seamless retail environment supporting competitive differentiation
- Intensified need for **shopper-centric collaboration** capabilities
- Creation of effective **cost-to-serve new operating models**



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1 Challenges of Capacity and Demand

Overall Grocery Demand/ Capacity dynamics imply intense competition in the years ahead

- **Overall demand for groceries grows with population** – in recessionary periods, demand ticks down by ~5% to 7% on a per capita basis
- Looking forward we see **key uncertainties**:
  - Projected flat level of per capita demand
  - Continued grocery capacity additions by both traditional grocery retailers and new channels

- Accelerated encroachment from **internet and mobile**
- **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 **~10% of the market**
  - Overall industry to have added **~290 million square feet**

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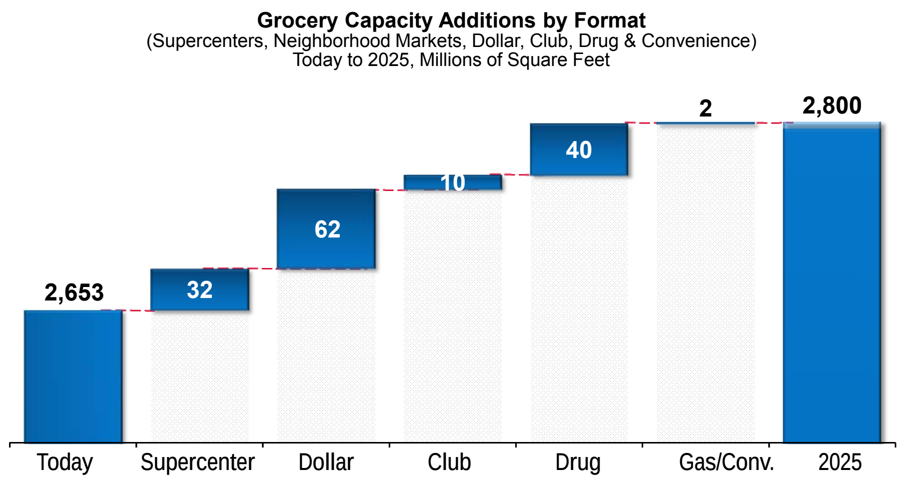
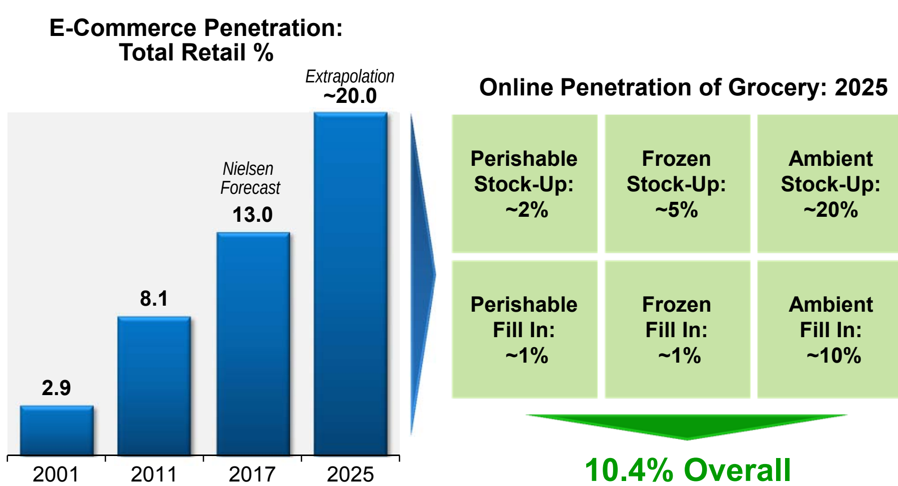
Taken together, non-supermarket channels will add ~145 million square feet by 2025



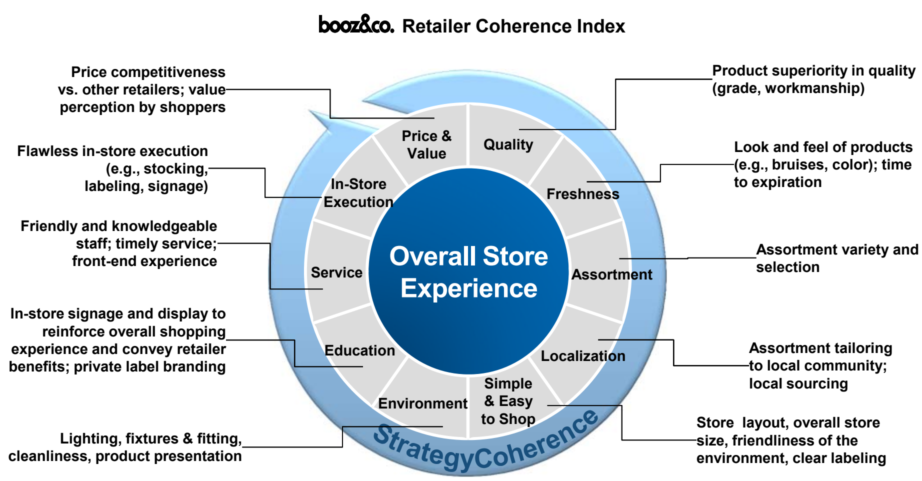
On this basis, a reasonable estimate might be ~10% of grocery retail is online by 2025, mostly non-perishable



Shifting Consumer Demographics are going to create new competitive challenges for both retailers and manufacturers

- US Ethnic population share **will increase to 47% of the US** consumer base
  - Represents a 13% increase in the next ten years
- **Hispanics and Asian populations** are forecast to grow the most
  - 41% and 37% respectively, in the period 2010 to 2025
- Ethnic-based **marketing and merchandising will increasingly present a growth opportunity** for grocers
- In addition, the opportunity to **carefully architect an Ethnic store strategy** is significant
  - Ranging from dedicated full ethnic stores to "bodega like" store-in-store formats
- In parallel, **age-based shifts will need to be dealt** with competitively
  - The 65+ year old segment will increase 7% (as % of total US population),
  - Both the 18, and under and 25-44 year old segments will decrease
  - All other age segments will remain relatively flat

What is the single most important capability needed for both differentiation/growth? – *shopping experience coherence*



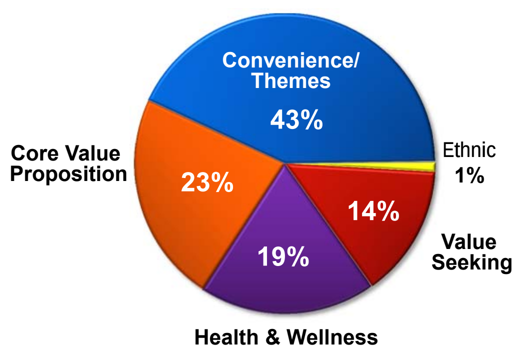
Source: Booz & Company

Merchandising displays are also a proven capability to drive growth – however improved strategy/execution is needed

Overview

- **Understanding the current merchandising landscape**
  - 510 Stores across five key channels
  - Supermarket, Mass/Supercenter, Drug, Club, and Dollar
- **In-store audit of 27,000+ unique displays**
  - Approx. 22,000 of these are grocery category displays
- **Grouping of these displays into five unique merchandising platforms**
- **Determining center store, perimeter, and rest of store locations**
- **Understanding private brands penetration**

Types of Grocery Category Displays[1]
Across All Channels
N = 21,898



1) "Primary" theme displays.

Note: Convenience/themes include snack & meal solutions; Health and wellness includes eco friendly, health & wellness and organics; Ethnic includes Asian, Hispanic and other ethnic.

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4 Technology as a Strategic Enabler

Executives characterized technology as a highly disruptive force in the go forward grocery retailing market

- Identified as the s**ingle greatest catalyst of change** at retail
- High **consumer adoption of mobile** smart devices
- The **Question of Big Data** − the challenges of scalability, affordability, end effective application

- In-store technologies − a**utomate the in-store experience as well as improve operating models**
- **"Seamless retailing"** – emerging table stakes demanded by the consumer

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4 Technology as a Strategic Enabler

Five technology predictions encompass the challenges retailers face with next generation priorities

1. Mobile becomes the **single greatest contributor to changing the overall shopper experience** at retail
2. Consumer and shopper analytics **will pivot merchandising and marketing capabilities** to drive revenue and profit growth – the "tuned store"
3. In-store technologies **will be used to significantly change the shopping experience:**
   - New Supply Chain Systems reduce cost of inventory
   - Next Generation Shelf tags reduce labor costs while better informing shoppers
   - In store Camera Technology drives both sales increases as well as labor reduction
   - Environmental lighting becomes a shopper marketing tool
   - Geo-fencing and store Google Map-like mapping become standard shopper tools
4. Next generation loyalty systems **will drive a new level of "tailored shopper interaction"** rewarding both normalized patronage as well as incremental spending
5. Omnichannel retailing **will evolve in grocery eventually becoming table stakes** – winners will be seamless – followers will be "patchwork"

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We see technology innovation at retail in five key dimensions

The evolution of consumer smartphone technology will outpace retailer's ability to harness the impending level of innovation

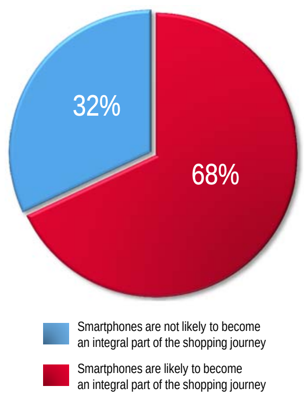
- **The New Smartphone**
  - 10x more powerful than today
  - 6 -10X more on-board memory
  - New "personalized" form factor
  - On always "communicating for you"
  - 6x − 8X more power life
  - 100 plus applications "just for you"

Note: Includes all Asian ethnicities

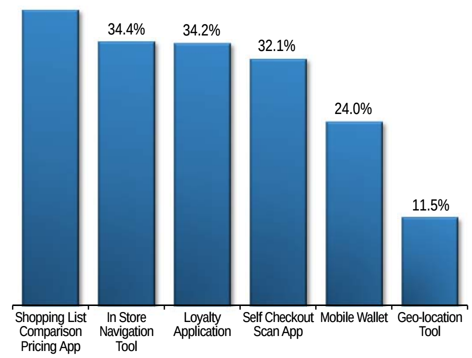
Source: Booz & Company Analysis 2013 Consumer Trends Survey; Booz & Company Analysis

Shoppers are most likely to use mobile technology to obtain lower prices, read online reviews and search for online coupons

Significance of Smartphones in the Shopping Journey [1]
% of Shoppers, N = 1503



Anticipated Activities



1) Q17.1A – Please select all that apply. Smartphones are likely to become an integral part of the shopping journey, which of the following do you see yourself using in the future? 32% of respondents (494 of 1503) selected "None of these".

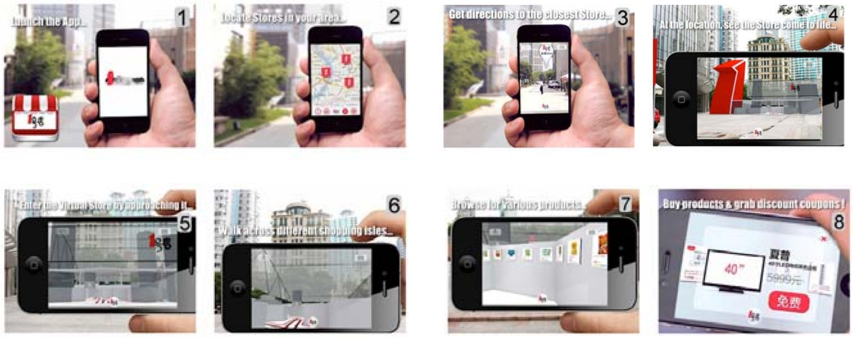
Source: Booz & Company 2013 Consumer Trends Survey; Booz & Company analysis; Nielsen Analysis

The *e*-grocery market continues to evolve whereby location becomes virtual and seamless

Yihaodian, China's largest food e-commerce retailer (kind of similar to Fresh Direct in the United States) has announced plans to open up the **world's first augmented reality supermarkets** in "blank city spaces" across the country.

- Visitors who go through these spaces without a smartphone **will see only "the office open space, parks and college campuses**."
- But those who arrive equipped with a mobile device will be able to see a **fully stocked supermarket, complete with virtual "food"** – can scan with a smartphone to put in a "virtual shopping basket" and have delivered at home
- Each supermarket will have **1,200 square meters of "floor space"** and will stock exactly 1,000 items at once

How the Yihaodian Virtual Store Application works



Recently Yihaodian, China's leading eCommerce platform for grocery shopping products, **launched a highly innovative marketing campaign to increase its customer base**. Each of the stores is **packed with promotional discount coupons and high-value, free gift vouchers** that are just waiting to be claimed by shoppers. Consumers **can buy products** using the application. Next, these items **will then be delivered** – just like with Yihaodian's regular website.

Walgreens – Increasing Basket Size

Walgreens is an example of a retailer who is **effectively using SMS messaging**. When a customer drops off a prescription they will text you when prescription is ready. This allows customers to focus on their shopping as they wait, rather than having to run back and forth to check if the order is ready. An additional service they provide it the ability to **re-order prescriptions by scanning a barcode** on the pill bottle.

Revolutionizing the In-Store Shopping Experience: IBM

IBM research scientists have created a prototype application that adds **augmented reality (AR) to the shopping experience**, enabling shoppers to scan products in-store and view personalized information like allergen info, recommendations, and discounts on their mobile device.

Consumers **download the application, register, and create a profile of features that are important to them**, like ingredients that could trigger an allergy or whether packaging is biodegradable.

Then, when they **point their device's camera at products in the aisles, the app instantly recognizes them and overlays details such as ingredients, price, reviews, and discounts using AR technology**.

In-Store App Smartly Syncs Shoppers and Sales Staff

This mobile application built by Signature complements the in-store Neiman Marcus experience by **connecting shoppers to sales associates when they enter the store.** The consumer interface allows shoppers to browse promotions, favorite items, see events, scan QR codes in-store, and check-in at the store.

The sales associate interface **delivers a Facebook photo when a preferred shopper arrives and shows the purchase and favorite history of the user.** This information provides the sales associate with a better understanding of the shopper's likes and dislikes. The **centralization, use, and delivery of data in this way** thus offers a distinct competitive advantage.

Walmart application makes check out faster, easier

Walmart's new **Scan & Go system lets customers scan and bag their own items** using the store's iPhone app.

The application **stores the items until the customer is ready to check out and pay.**

"The **list that they've already scanned populates right into the register**; it's all done for you. You don't have to load the groceries onto the belt, have your cashier scan them, reload all the bags. Everything's already taken care of," said manager Justin Shank.

The Omaha store is one of 200 testing the new technology.

 *

Fox Movie Mall Virtual Storefronts Offer Up Savings With Innovative Application

Twentieth Century Fox Home Entertainment and Taubman Centers announced a year-long partnership to create unique shopping experience with **Fox Movie Mall virtual storefronts**.

Along with the Fox Movie Mall app available at the iTunes Store and Android Market, shoppers at **participating Tubman shopping centers can simply Stop, Scan and Shop.**

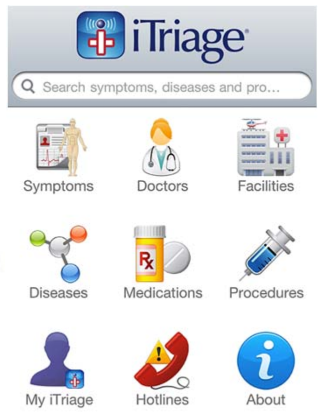
By picking a film title from a wallscape, consumers c**an scan a QR code and instantly be taken online to buy and have shipped right to their door**.

Retail technology organizations need to address/support shoppers healthy living attitudes enabled by technology

Eliminating Confusion | **The Carrot of Health** | **The New Daily Normal**

Mobile devices to help you monitor your health…

Mobile applications as a "first line of understanding"…



Mobile applications to help you live "informed" with chronic conditions and disease states…

Mobile applications to drive fitness…

New Merchandising systems will be designed to align with the way consumers shop and the way they live

Integrated Dashboards and Alerts

Assortment Planning
Category Planning
Warehousing and Logistics
Finance, Forecasting, and Reporting

Shopper Segmentation, Analytics, and Insights

Price and Promotion Management
Space Planning and Automation
In Store Systems
Loyalty Development

Data and Network

- Retailers are **developing a shopper-centric IT strategy**
  - Core merchandising is **redefined to reflect changing shopper preferences and needs** states
  - High degree of **localization to hyper localization in merchandise planning and execution**
  - Systems are **redesigned to reduce operational costs by 15% - 20%**
  - Significant investments in **next generation collaboration capabilities**

Consumers' realize that merchandising innovation is being supported with Retailers technology investments

Where Shoppers Perceive Merchandising Innovation

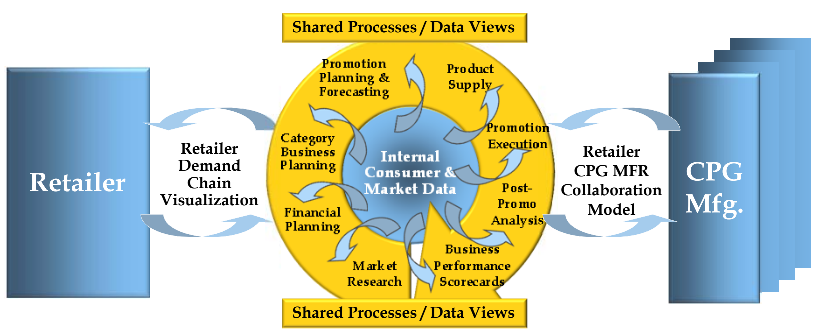
SmartPhone/Internet	84%
Grocery Store	57%
Specialty Store	50%
Department Store	46%
Mass Merchandiser	37%
Convenience	35%

Consumer recommendations on merchandising innovation are quite clear

We asked a number of retailers to prioritize their merchandising technology investments

Reinvent center store systems – forecasting, supply chain, assortment planning, and execution	74%
Develop new levels of shopper intelligence to support shopper centric merchandising	63%
Provide the data, analytical, and insight framework supporting intensified collaboration	62%
Deliver improved and promotion capabilities	61%
Begin integration of bricks and clicks merchandising	52%

To support consumer centric merchandising a new information sharing model is emerging



We believe there are three strategic enablers for effective long term collaboration:

1. Effective Data Sharing Strategy aligning analytics, understanding, and actionability
2. Common Scorecarding designed to both measure, grow, and predict the business
3. Well defined and agreed to shared and instutionalized collaboration processes

In order to improve loyalty retailers are trying various forms of shopper loyalty programs

Loyalty Program Evolution

Historical				Today	Emerging
Discount Cards	**Proprietary Loyalty Program**	**Payment Cards Rewards**	**Personalized Programs**	**Gas / Grocery Cross Promotion**	**"Total Wallet" Loyalty**
• Provides additional discounts to consumers, but does not drive loyalty • Offers insights into current shopper behavior but does not provide under-standing of new customers	• Limited ubiquity, fungibility and hence low materiality and perceived value of reward • Like discount cards, does not provide any understanding of new customers	• Drives loyalty to the card but not necessarily to the retailer • Rarely provides exclusivity to the retailers, or incentive to use specific retailers	• Provides personalized offers, prices or rewards based on customer's purchase history, physical domicile and/or demographics	• Incents customers to spend at participating grocery store • Helps concentrate spend but does not lead to increase in overall basket size for category	• Has all aspects of an ideal loyalty program – ubiquity, exclusivity, fungibility, high perceived value, personalization, convenience, high ROI • Helps acquire new customers besides increasing the share of wallet of existing customers

Source: Booz & Company Analysis

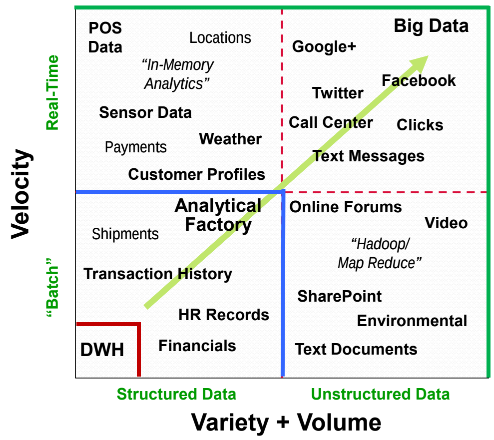
Next generation loyalty programs are in fact delivering growth, primarily in current shopper bases – *revolution is coming*

Coalition Structure	Primary Focus	Value Creation	Household Spend
Grocery/Gas Coalition	Current Shopper Base	1.5% - 2.0% of annual sales	~15%
Total Wallet Coalition	Current Shopper Rest of Market Shopper Base	1.5% - 2.0% for current Increase in new shoppers of ~5%	~50%

Big Data at retail – details of every shopper/visitor, every interaction, every day, 7/24 – possible/cost effective/feasible?

Five Fundamental Issues from the C-Suite

1. *"What are we going to do with all this data?"*
2. *"We have no clue as to how to analyze all the data we have collected."*
3. *"Having a great deal of information that you can't instill into actionable insights relating to the customer experience is a lost opportunity. What is the roadmap?"*
4. *"If you can't translate the reams of information into a strategy that can be executed in the company by someone at the front lines, you don't really have much."*
5. *"Simply stated, its all about affordability and how it will change my bottom line. I am not there yet on this topic."*



Although it was mentioned in all interviews – need, affordability, and differentiation was questioned

Source: Booz & Company/BARC

Bring the store to the home to help "envision" could become a core "seamless retailing" technology enabler

Crate & Barrel allows shoppers to "Test Drive" before they purchase

- Users **simply upload a photo of the room** they would like to furnish to Crate and Barrel's online platform and provide their room's dimensions.
- The photo is the **wiped clean of its furniture**, enabling shoppers to substitute pieces from the retailer's online catalog and visualize them as they would appear in the room.
- Shoppers can then **email the modified photo of their room** to the nearest Crate and Barrel and schedule a personal design

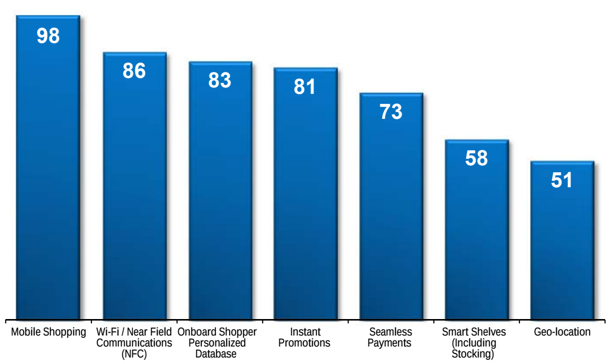
A number of traditional grocery items will be home manufactured through 3D printing – including foods

MAKERBOT – 3D Printing becomes affordable in the home

- The MakerBot Store in New York City is the first full MakerBot retail experience in the world.
- Visitors can watch the MakerBot Replicator 2 Desktop 3D Printer working live to create new objects, attend interesting classes and workshops, and buy the coolest gifts in New York City.
- Browse here to see everything currently available to see, experience, and buy at the MakerBot Store.
- Next generation “inks” could be food, flavor, and color additives

In-store technologies are destined to deliver a “responsive store” environment for shoppers

Technologies that Will Drive the Shopping Experience Transformation
N = 18 CTO Interviews



Implications

- **What will next generation in-store technology achieve**
  - Designed to “inspire” shopping
  - Discover new products
  - Instant “just in time” incentives
  - Connect shoppers to their preferences of all of the things they love
  - Shoppers will expect “relevant” suggestions automatically
  - Three technology differentiators
    - Personalized
    - Immersive
    - Helpful
- **Supports the shopper as well as it supports the retailer**

Source: CEO & CTO Interviews with NCR Technology, IBM Retail Group, and HP Retail Group; Booz & Company Analysis

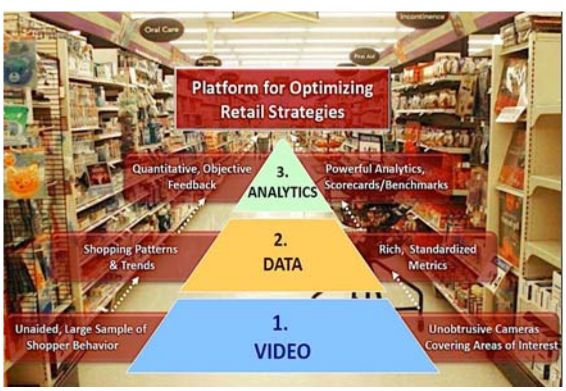
Recently a major retailer has implemented technology to revamp check out times driving improved customer service

QueVision – technology that counts individual store traffic and determines wait times

- Overhead i**ndividual sensors that count customers – installed** in all 2400+ stores
- Analyzed **shopping traffic by time of day** to better staff registers
- Results indicate **both transactions and basket levels** increased
- Cost to serve from a **staffing perspective stayed the same while customer satisfaction rose**

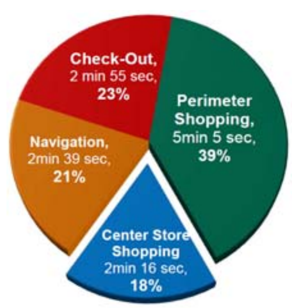
Several retailers have implemented camera technologies from Videomining to alter radically merchandising capabilities

VideoMining®
The power to see more



Used by leading retailers to discover and act upon:

- Path to Purchase
- Moment of Truth
- Shopper Centric Productivity



Shelf labeling systems are about to undergo a significant shift in both technology and leverage with the shopper

Next generation "shelf communication" capability in development

- Integrates shelf labels and lights
- Eliminates labor costs for both label changes as well as talkers and promotional tags
- Very low cost and high reliability
- Application will be as follows:
  - Shelf labels will be **day part specific** including highlighting what products are most "tuned" to the day part shopping experience (change lighting colors and intensity)
  - Promotions are **instantly highlighted** with lighting colors (green for savings)
  - Lighting options **are limitless** – intensity, colors, frequency, blinking, brand, etc.
  - Strategy is to **intensify the shopping experience at** the shelf in real time
  - Will be **linked with the Smartphone** to personalize the shelf for the shopper

RFID applied to "telling the product story" to the consumer/shopper

BURBERRY®
LONDON

Burberry Opens First Digitally Integrated Store − London

- Full-length screens **wrap the store, transitioning between audio-visual content displays, live-streaming hubs and mirrors.**
- Perhaps the coolest bit of technology is Burberry's use of radio-frequency identification (RFID) chips.
  - Chips have been **attached to certain clothes and accessories** so that when a customer approaches one of the screens in the common areas or in a fitting room, specific content — say, **information about a bag's stitching and craftsmanship, or a video showing how a skirt was worn on the catwalk — will appear.**

In-store handheld devices take the guess work out of "highly personalized / intensified" customer service

SEPHORA + PANTONE Color IQ Handheld Device:

- Image takes **1.8 seconds to capture**
- Produces 27 photographs in black and white using 8 different visible LED bands and 1 ultraviolet band
- Grid of 100x100 pixels across skin sample which then becomes **one color composite**
- New **method of color measurement,** including texture and surface sample variables, allowing for the most accurate color positioning

In-store robotic technology will drive a significant change in the cost of store operations

intel

AndyVision -- In-store robots replace humans in stocking shelves

- AndyVision's **main job is inventory management.**
- With the help of a video camera and an onboard computer that **combines image-processing with machine learning algorithms,** it patrols the aisles counting stock and scanning for misplaced items.
- Kinect sensors keep it from **running into things in the store,** and wireless technology keeps a **line of communication with the store's human staff.**
- The data from the inventory scans are all sent to a large touchscreen, where customers can browse through what's available in the store

Retailer technology groups are investigating and planning for in-store mobile payment capabilities

When strategically thinking about mobile payment capabilities, several ROI metrics are core to investment thinking:

- Definite **ease of use for shoppers** during the checkout process
- Increased **ability to improve i**dentity verification, fraud prevention, and authorization
- Clear p**otential for faster transaction times,** which leads to higher sales turnover
- Shorter **lines at the cashier, including multiple, automated checkout lines**
- Real **cost savings on credit card fees and bank charges** including interchange fees

Retailers are struggling with how best to create a seamless virtual retail environment

Benchmark is to operate like Walmart with the flexibility of Amazon

Bricks and Mortar

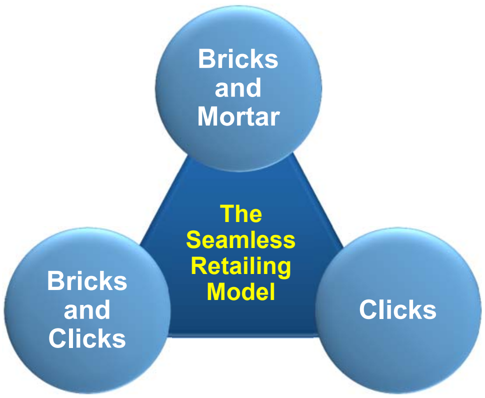
Clicks and Mortar

Clicks

Five Strategic Planks

1. Seamless Shopping experience across all shopping touch points
2. Inventory aligned to purchase process – integrated not competing
3. Pricing based on value of services delivered
4. Cross organizational alignment designed to sell and service the shopper seamlessly
5. 360º metrics to support growth across the multi-channel retailing environment

Retailers are struggling with how to deliver the overall "seamless experience" which is core to shopping simplicity



Perspective from the C-Suite

"We know we need to solve the multi-channel retailing problem. However, with the pace of technology change, we are not sure where to start investing and the prioritization process is very challenging".

– CEO, Regional Grocer

"We have no clue as to where to invest and how to invest. We are not sure what is important and what is not. However, we will invest and invest heavily".

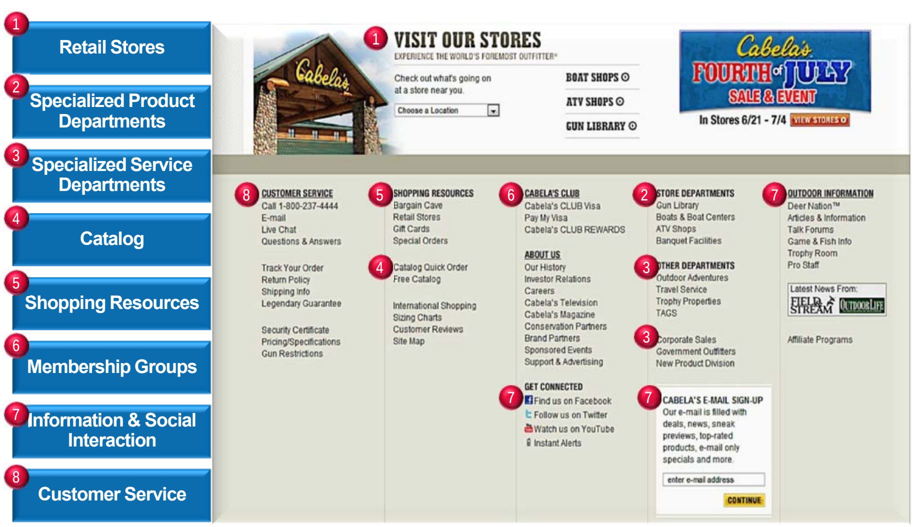
– CTO, National Grocer

"We are having solid success with our "Bricks and Clicks" model – however, it is costly and we are unsure as to how to integrate with the stores – big challenge".

– CMO, National Grocer

Source: FMI Executive Retailer and Manufacturer Interviews

The Cabela's Multi-Channel retailing strategy fully integrates and continues to deliver a seamless experience



Example: Tesco links the in-store experience with digital to create a coherent overall customer experience

Customer Experience

In-Store Ordering
- Kiosks were first introduced in 2006 to create endless aisle capability
- Mobile app allows customers to scan bar codes and have items automatically placed in their Tesco.com shopping cart

In-store Pick-up Options
- In-store pickup, including one hour pick-up on certain online orders in the London area
- "Click and collect" service allows customers to order online and pick up via drive through in the store parking lot

In-Store Returns
- In-store returns for most products, including a dedicated Tesco Direct desk
- "No questions asked" return policy for clothing within 28 days with free shipping

TESCO

Supply Chain Implications

Customer Experience: Procurement → Inventory Management → Warehouse Operations → Transport & Logistics → Post-Sale Support

Inventory Management
- Retail and online systems must communicate to ensure inventory is available for in-store pick-up
- Mobile app must connect to inventory system to enable product scans to be recognized and added to the online cart

Transport & Logistics
- In-store picking systems should optimize employee selection of products
- Potential to create hyper-local DCs to fulfill ship-to-home orders as well

Post-Sale Support
- Returns must be processed back into sellable inventory as quickly as possible
- Systems must allow for real-time processing for customers in the store

The choice of the customer experience determines the exact supply chain capabilities required

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Topics for Today's Discussion

- Introduction and Objectives
- The Challenges of Capacity and Demand
- Consumer Trends That Will Reshape the Industry
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With all of the technology options available to the technology groups, how are go forward strategies developed

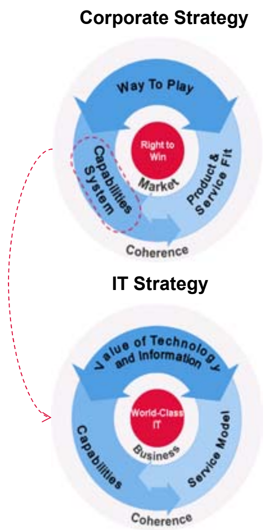
Key Industry Questions

- *"With the increasingly rapid pace of technology innovation, how do we **understand what technologies are critical to explore or not**?"*
- *"Shortening technology lifecycles are becoming a reality. How do we **develop an effective understanding of ROI' cycles and thresholds**?*
- *"Is there a new organizational and operational model that will **drive increasing leverage from the IT organization**?"*

Effective evaluation and governance of IT investments requires clarity and discipline around IT strategies/operating models

- We see many of our clients struggle to **effectively evaluate, prioritize and manage** the portfolio of IT programs
- Key challenges include:
  - **Misunderstanding the priorities** of the business
  - **Lack of clear linkage** between those business priorities and an overall IT strategy
  - **Lack of an effective IT operating model** within which to evaluate opportunities
  - **Lack of an investment portfolio plan** which aligns specific programs with overall investment objectives
  - **Lack of discipline around the execution of program business case development** and a stage/gate evaluation process
- In our view, three foundational components are needed
  - An **IT strategy** which is hard linked to the business priorities and supports both near term and long term objectives
  - An **IT operating model** and processes which define how IT is governed and demand for IT capabilities is managed
  - An **investment plan** which defines the relative spend parameters for different classes of investment

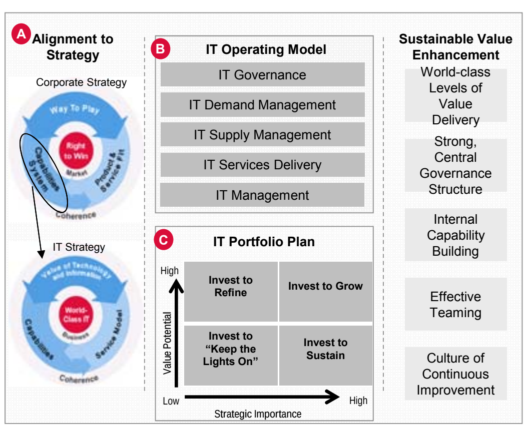
The IT mission is to ensure assisting the business deliver on its essential capabilities



- Booz & Company believes that the **business strategy does more than define the boundaries of the playing field — It also defines:**
  - – How to play
  - – The 3-6 key capabilities that allow the company to succeed over time in the marketplace
- Moreover, we believe that **IT must both develop and successfully deliver those capabilities** in a fashion that supports the overall business strategy's coherence
- Many **IT investment portfolios are fragmented across the full capabilities set**, in an attempt to appease everyone with a "peanut butter" approach

A holistic IT strategy and Operating Model, paired with a clear plan for investments, can lead to world class outcomes

Aligned and Holistic IT Strategies and Operating Models



Key World-Class Outcomes

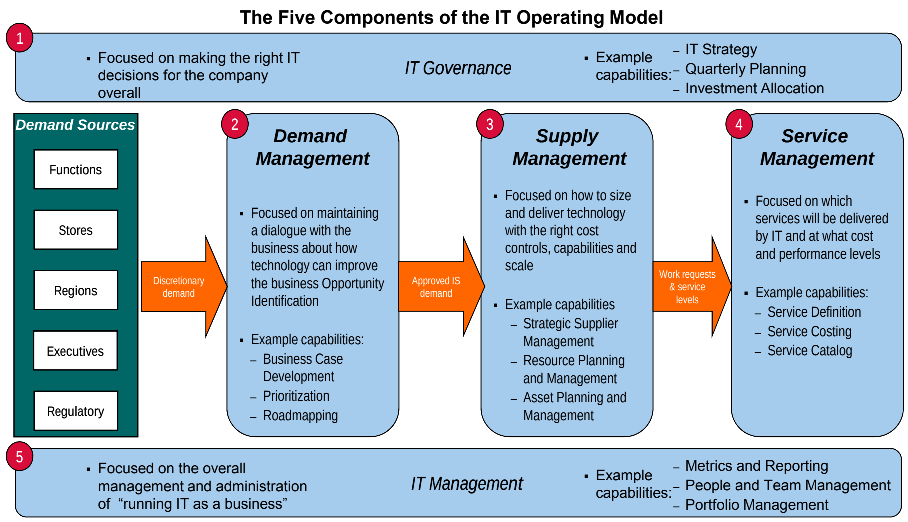
Alignment
- True alignment of strategic intent and day-to-day decision
- Organization moving in lockstep and executing faster and with more force
- Talent attraction to organizations that clearly value what they do

Focus of Management and Workforce
- Direction of capital and attention to those opportunities that extend a capabilities lead
- High levels of employee satisfaction through maximizing time on strategic initiatives vs. "grunt" work

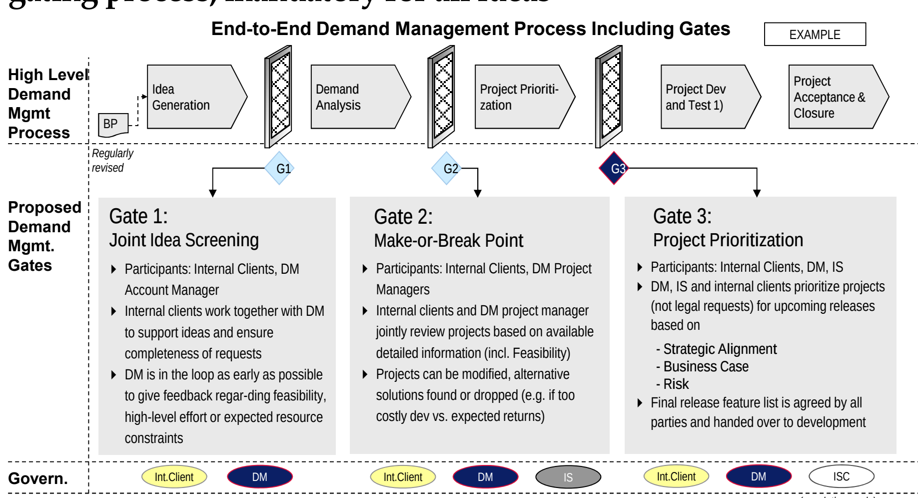
Performance and Quality Delivery
- High delivery quality
- Ongoing improvement engine for the few capabilities that matter
- Barriers for competitors who are less coherent, with less effective capabilities

Cost Optimization
- Optimal spend-value balance
- Less spend on those capabilities that are non-differentiating
- Capability scale through focus and ability to deploy more broadly

The IT operating model focuses on services managed through a separation between supply and demand



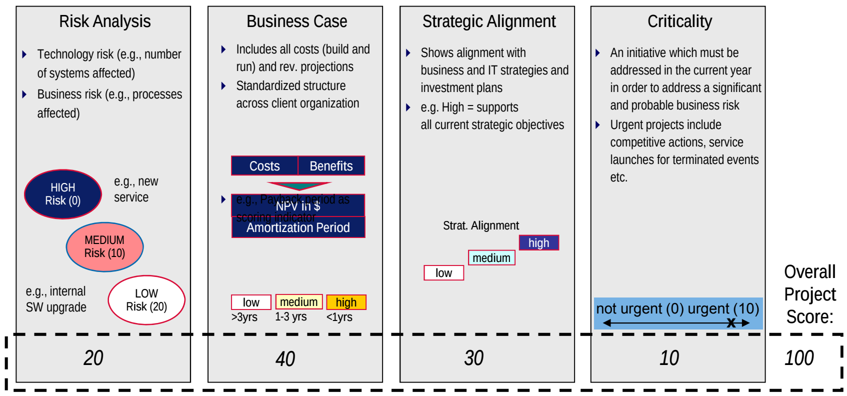
Demand Management should follow a global, standardized gating process, mandatory for all ideas



Note: BP= Business Plan G = Gate DM = Demand Management IS C= IS Council

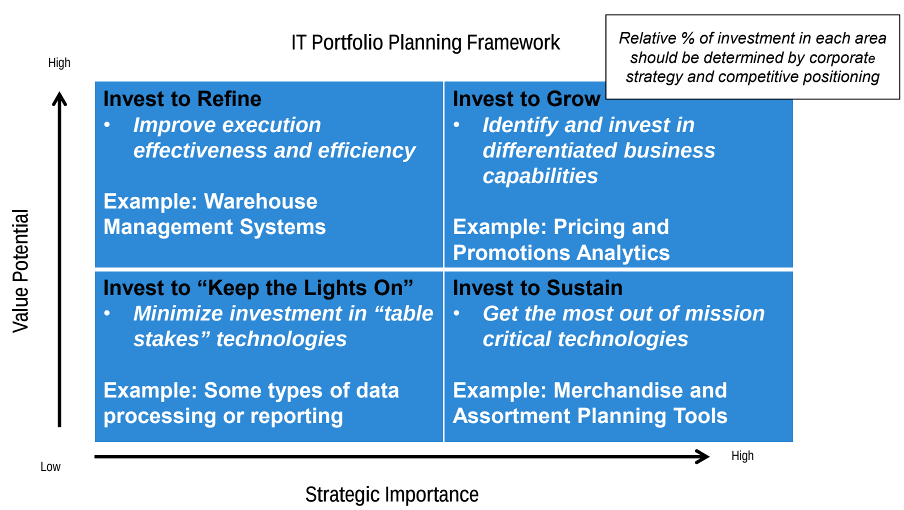
Prioritization should take into account multiple measures for each program to understand relative opportunities across the portfolio

Project Scoring Details



Detailed scoring model & score weighting to be used to be agreed among stakeholders in implementation phase

Investments should adhere to an overall investment plan, driven by the corporate strategy and priorities



The plan should also account for large, periodic hardware refresh investments driven from a rigorous need and capacity analysis

- **For hardware investments (e.g., servers, PCs, devices, etc.), there are rules of thumb around how often to refresh, typically every 3 to 5 years:**
  - Improved CPU speeds
  - Improved power consumption
  - Greater functionality
- **For some companies, the timing of refresh investments are by default the depreciation schedules for the hardware – the investment has become rote, leading to unnecessary spending and risks**
- **However, new trends are disrupting these traditional rules of thumb, for example:**
  - More work is happening through employee owned devices
  - Server virtualization is lengthening refresh cycles
  - Some applications are moving to completely new hardware platforms, changing the demand profiles (e.g., mobile POS, self serve POS)
  - Cloud computing is bringing entirely new economics and investment patterns
- **Hardware refresh investments should be the outcome of a clear investment roadmap and a rigorous capacity planning exercise:**
  - Aligned with the business strategy and application roadmaps
  - Aligned with the business risk mitigation and continuity strategies
  - Accounting for business usage and technology trends
  - Taking advantage of virtualization and consolidation opportunities
  - Addressing older, less reliable, and/or unsupported hardware

With these components in place, every investment can be evaluated against standard set of diagnostic criteria

Example IT Investment Evaluation Questions

- Do we **know what the business needs** from IT to achieve priorities?
- Can we show how **every dollar we spend in IT creates value** for the business?
- Are we contributing to the **capabilities that really matter** for our company's strategy?
- Have we **identified the biggest gaps** between the current state of our IT and the value creation system that we're building?
- Are we **developing our investment plan and road map** jointly between business leaders and IT?
- Do we use this **road map to determine** capital and resource allocations?
- Do we have the **governance mechanisms in place** that we need to follow our road map?
- Do we understand how the **evolution of technology may enable improvements** in our distinctive capabilities?
- Do we **consistently refresh the road map**, update our IT architecture, and retire outdated systems as needed?

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Summarizing today's conversation

- Rapidly **changing and volatile** environment
- Deep **structural issues** (over capacity, new entrants etc.) combined with…
- …**unprecedented** technological change
- Very **challenging environment** for the traditional supermarket industry

- Winners will:
  - Successfully **differentiate from the other formats** and from like-formats
  - Redefine the **end-to-end shopping experience**
  - **Embrace and lead** with technology
  - Participate in the **transition to online purchasing** (one way or another)

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Three questions to reflect on AFTER today's conversation

A conversation with your peers…

- *"Is our current strategy aligned with the major trends identified in this research?"*
- *"Is our organization FIT FOR GROWTH – that is, are we placing the right investment bets and cost structure?"*
- *"Has our growth plan adequately accommodated technology to differentiate ?"*

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