KANTAR RETAIL

THE FORTY YEAR SHIFT:

ECONOMIC FUNDAMENTALS OF POST MODERN
RETAILING

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Agenda

- Wall Street vs. Main Street
- Post Modern Retailing
 - -Implications for business model evolution and investment
- Why Forty Years?
 - -Generational Shift
 - –Haves and Have Nots
- The Value of the Store as Expression of Retailer Brand
 - -Why store experience and design is mission critical

Finance vs. Wall Street Not the same

- The nature of stock markets in the last 30 years or so has been to react to the near term, to be inherently volatile and seek quick returns through trading
- Directly conflicts with a longer term business development philosophy
 - -The most admired and generally best performing retail firms are those that largely ignore the stock market "noise" and focus on fundamentals
 - Costco, Kroger, Amazon to name a few
 - Similarly with healthy privately held businesses
- The one place where Wall Street and Main Street aligned has been a general aversion to debt since 2007

What "The Street" Sees in Retail

- Remarkably unconcerned with the differences between a supercenter, a supermarket, a club, a specialty store
- They see cash flow, balance sheets, and real estate (assets)
- Very sensitive to price and inflation but not much understanding for shopper value
- Financial analysis is based on transactions not shoppers
- Belief that U.S. is over-stored
- More aware of digital / online potential impact than most operators
- NOT the same POV as equity management or venture capital firms that consider ownership as part of their strategy

Debt Is a Tool Like Any Other

Just an Invoice on Total Inventory

- Investment, equity, and venture capital firms have learned to use leverage (debt) more effectively than the market
 - -Multi year planning
 - –Most such firms who acquire retailers have learned to build value through overall brand development
 - Historical examples include Safeway and more recently Dollar General
- The lesson is instructive: building value as a retailer is all about building brand strength
 - —Combining players with weak market positions merely to achieve scale is usually not advantageous — unless accompanied by strengthened brand development

So What Is Driving All These Deals?

Some recent examples

- Spartan & Nash Finch announce merger
- A&P hires Credit Suisse to explore "future options"
- Bi-Lo considers IPO
- Kroger & Harris Teeter announce merger
- Safeway sells Canadian holdings to Sobey's
- Bi-Lo buys selected Delhaize banners

Less of a trend and more of a series of responses to changing market conditions, each unique to circumstances

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Kantar Retail's Market Evolution Model:

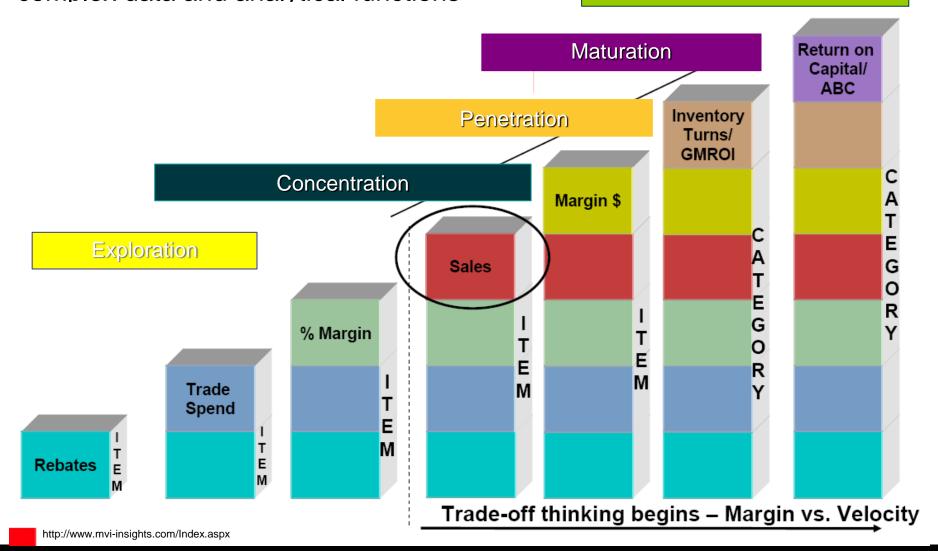
Organized Trade Evolves Along A Predictable Continuum As Do Lead Formats In Each Phase

Exploration	Concentration	Penetration	Maturation	Post-Modern
OT 20-30% of mkt	OT 30-40% of mkt	OT 40-50% of mkt	OT 50-60% of mkt	OT 60-70% of mkt
T5 OT retailers <30% of OT	T5 OT retailers <40% of OT	T5 OT retailers <50% of OT	T5 OT retailers <60% of OT	T5 OT retailers <70% of OT
onsition	Gradual Transition	Rapid Transition	Gradual Transition	Regional Variations
Pioneers Category Specialists, Hypermarkets, Cash & Carry, and Local Food Chains	Adjacent Nation, Primary Formats Discounters & C-Stores = new growth formats; Hypers and C&C largest growth formats	Adjacent Nation, Pioneers, and Secondary Formats Traditional Trade now impacted	Pure Secondary Formats, Multi-formats Drug, Supermarket, Category Specialists	Multi-Format Dominant High-capability Drug, Supermarkets & Category Specialists. Regrowth of Specialty Chains, Mom 'n Pops with Demographic Focus

Analytics and Metrics

As MEM and Retailers develop more complex data and analytical functions

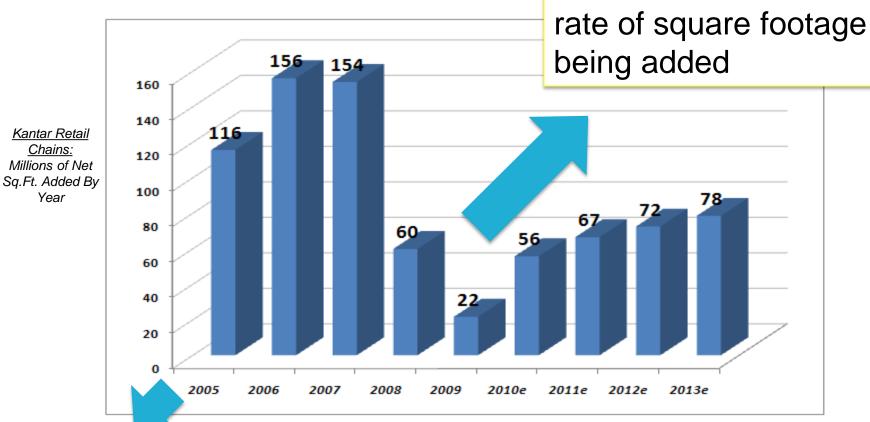
Post-Modern



When Times Get Tough—Fixed Assets Get Hit

Square Footage Added by Kantar Retail Chains

2005-2013E A 51% reduction in



2005-2007 Avg: 142 MM Sq. Ft.

Kantar Retail Chains:

Millions of Net

Year

2008, 2009, 2010e: Sq.ft. being added by only most wellgrounded chains

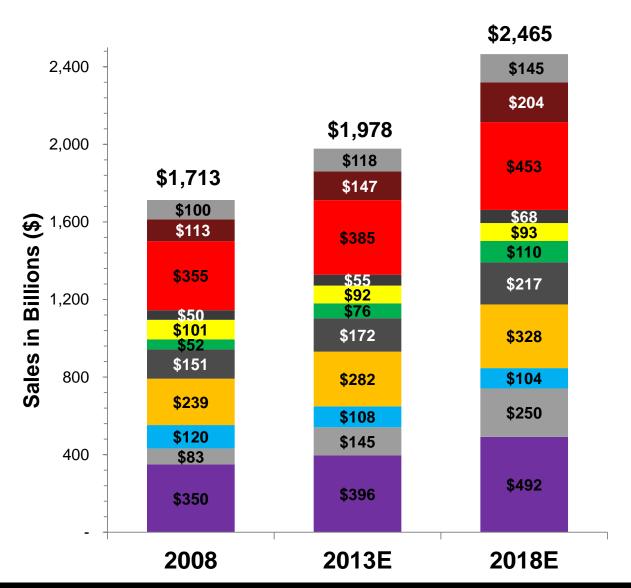


'11E-'13E Avg: 72 MM Sq. Ft.

Post Modern Market Dynamics

- Most chain retailers achieve competitive scale
- Growth through new store growth has a much lower ROI
- Open locations harder to come by, fill-in locations make competitive market entry increasingly hard
- Useful life expectancy of stores extends putting emphasis on remodels and refreshes
- Stores tend to be more targeted at underserved pockets:
 - -Broad consumer positioning harder to achieve
- Focus shifts to comparable store sales in older buildings
 - -Only 2 U.S. examples of this consistently working

US Sales by Format: Channel Level View



Channel	CAGR '08-'13E	CAGR '13E-'18E
■ Apparel	3.5%	4.3%
■ Clubs	5.4%	6.8%
■ Category Specialist	1.6%	3.3%
■ Convenience	2.2%	4.1%
Department	-1.8%	0.11%
■ Discounter	8.2%	7.6%
■ Drug	2.6%	4.8%
Supercenter	3.4%	3.0%
■ Mass	-2.2%	-0.6%
■ Non Store Retail	12.0%	11.4%
■ Supermarket	2.5%	4.4%
KR Channel Totals	2.9%	4.5%

MARGINAL VOLUME TELLS A DIFFERENT STORY... Share of Growth Analysis Reveals Momentum At Scale

- Non-store retail will grow by more dollars than any other channel
- Supermarket is #2 posting more than 2x the dollar growth of mass!
- Club > mass, and discount catching up
- No one channel = 25%, and even top 4 only capture 2/3

Share of 2013-2018 growth

	•
Apparel	5.5%
Club	11.7%
Category Specialist	13.9%
Convenience	2.7%
Department	0.2%
Discounter	7.0%
Drug	9.2%
Mass/Supercenter	8.6%
Non Store Retail	21.5%
Supermarket	19.7%

Top 3 US Supermarkets Account for USD 199.3 Billion by 2018E

US Supermarket Sales (ranked by 2013E sales)

KR Top Supermarket Retaile Sales (USD billions)				Square Footage (millions)				% of US Totals					
US Rank 2013E Sales	Retailer	2008	2013E	2018E	CAGR ('08-'13E)	CAGR ('13E-'18E)	2008	2013E	2018E	CAGR ('08-'13E)	CAGR ('13E-'18E)	2013E Sales	2013E Sq Ft
1	Kroger	\$ 64.6	\$ 88.7	\$ 125.5	6.5%	7.2%	122.7	125.5	126.8	0.5%	0.2%	22.1%	17%
2	Safeway	\$ 37.5	\$ 37.1	\$ 38.9	-0.2%	1.0%	77.5	70.8	69.6	-1.8%	-0.3%	9.2%	10%
3	Publix	\$ 23.7	\$ 28.4	\$ 34.8	3.7%	4.2%	45.7	51.0	56.4	2.2%	2.0%	7.1%	7%
4	Ahold	\$ 21.4	\$ 26.5	\$ 30.1	4.4%	2.6%	35.6	39.6	40.7	2.1%	0.6%	7%	5%
5	Albertsons Market (LLC)	\$ 6.0	\$ 19.5	\$ 17.0	26.5%	-2.7%	12.8	51.2	46.7	32.0%	-1.9%	5%	7%
6	H-E-B	\$ 13.9	\$ 19.1	\$ 23.7	6.5%	4.5%	17.1	20.5	22.3	3.6%	1.7%	5%	3%
Top 3	US Supermarket	\$ 125.8	\$ 154.1	\$ 199.3	4.1%	5.3%	245.8	247.3	252.8	0.1%	0.4%	38%	33%
Top 6	US Supermarket	\$ 167.2	\$ 219.2	\$ 270.1	5.6%	4.3%	311.4	358.6	362.5	2.9%	0.2%	55%	48%
All Othe	er US Supermarket	\$ 187.2	\$ 181.8	\$ 226.8	-0.6%	4.5%	420.7	383.1	427.7	-1.9%	2.2%	45%	52%
Total K	R US Supemarket	\$ 354.4	\$ 401.0	\$ 496.9	2.5%	4.4%	732.0	741.7	790.2	0.3%	1.3%	100%	100%

Note: Includes supermarket sales only (supermarket format only)

Data as of 5/24/2013

Leaders Dominant But Scale Not a Growth Driver Top 20 Supermarket Retailers Account for 93% of Sales Added from 2013E-2018E

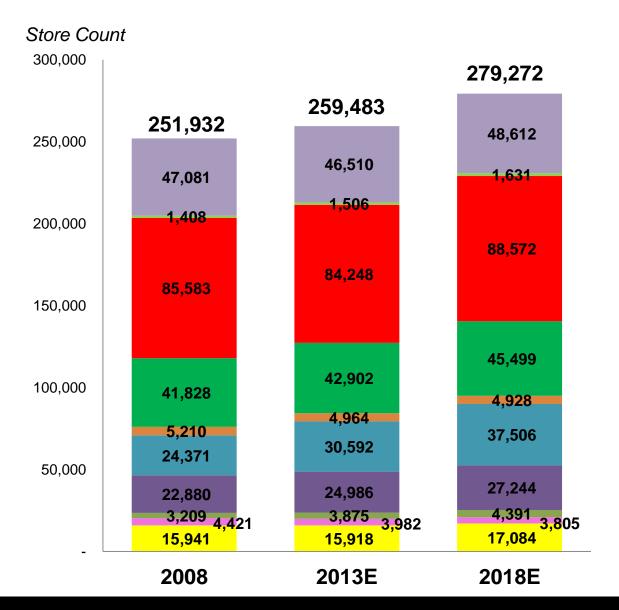
Ranked by % sales added (us supermarket sales only)

rtariito	Retailer	Sales 2013E (USD millions)	Sales 2018E (USD millions)	Sales Added 2013E-2018E	% of Total Sales Added 2013E-2018E
1	Kroger	\$88,653	\$125,503	\$36,850	37.8%
2	Walmart (small formats)*	6,377	17,640	11,263	11.5%
3	Whole Foods	12,578	19,759	7,181	7.4%
4	Publix	28,387	34,831	6,445	6.6%
5	H-E-B	19,064	23,708	4,645	4.8%
	Top 5 Total	<i>\$155,058</i>	\$221,442	\$66,38 4	68.0%
6	Ahold	26,519	30,092	3,572	3.7%
7	Wakefern	13,050	15,909	2,858	2.9%
8	Wegmans	7,060	9,469	2,409	2.5%
9	Safeway	37,073	38,925	1,853	1.9%
10	Meijer**	10,320	12,080	1,760	1.8%
11	Winco	5,263	6,804	1,541	1.6%
12	Fresh Market	1,567	3,056	1,489	1.5%
13	Giant Eagle	6,719	8,103	1,384	1.4%
14	Sprouts	2,465	3,783	1,318	1.4%
15	Bi-Lo	9,097	10,368	1,271	1.3%
	Top 15 Total	\$274,191	\$360,029	\$85,839	88.0%
16	Hy Vee	3,826	5,036	1,209	1.2%
17	Harris Teeter	4,729	5,773	1,044	1.1%
18	Delhaize	17,862	18,866	1,004	1.0%
19	Stater Bros	3,997	4,880	883	0.9%
20	DeCA	5,333	6,111	778	0.8%
	Top 20 Total	\$309,938	\$400,694	<i>\$90,757</i>	93.0%

*Walmart includes supermarket formats: Neighborhoomd Market, Supermercado de Walmart, Walmart Express, other small 'test' stores ** Meijer includes grocery sales only

Data as of 5/24/2013 Note: Includes supermarket sales only (supermarket format only)

US Stores by Format – Who is Building?



Channel	CAGR '08-'13E	CAGR '13E-'18E
Apparel	-0.2%	0.9%
Clubs	1.4%	1.6%
■ Category Specialist	-0.3%	1.0%
■ Convenience	0.5%	1.2%
■ Department	-1.0%	-0.1%
■ Discounter	4.7%	4.2%
■ Drug	1.8%	1.7%
Supercenter	3.8%	2.5%
Mass	-2.1%	-0.9%
Supermarket	0.0%	1.4%
KR Channel Totals	0.6%	1.5%

Stores: Key Soundbites

- New door growth skews markedly small
 - -60% of new store growth drug/value/convenience
- For the 10 years from 2008-2018E forecasted only 1% store expansion per year
 - -Critical skill for most retailers will be growing comps...
 - -...but very few know how
- 400 new mass/supercenter stores over next 5 years, over 4,000 specialist stores



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Why Forty Years?

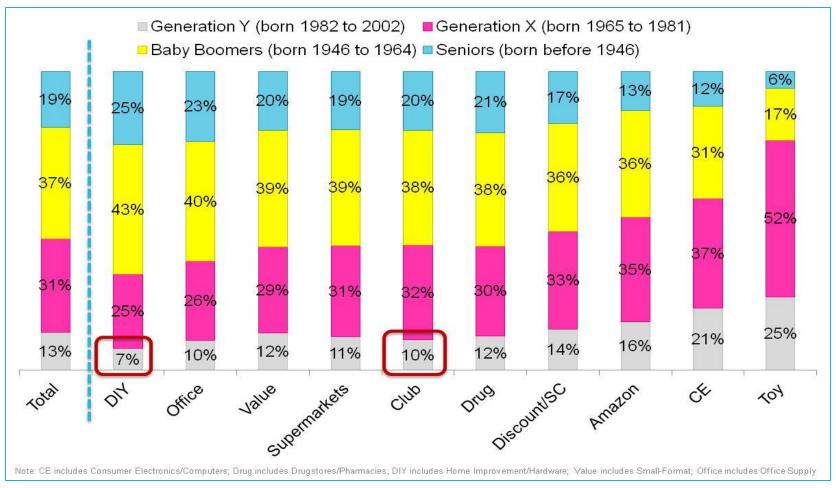
- Confluence of change:
 - -Generational shift
 - -Economic bifurcation
 - –Market evolution







Everyone Is At Risk of Overlooking Gen Y



Though a relatively small percentage of core shoppers in most outlets at the moment, the Gen Y shopper will mature into the largest single cohort during the next few years while forming enduring brand and outlet preferences

Implications: Generational Polarization

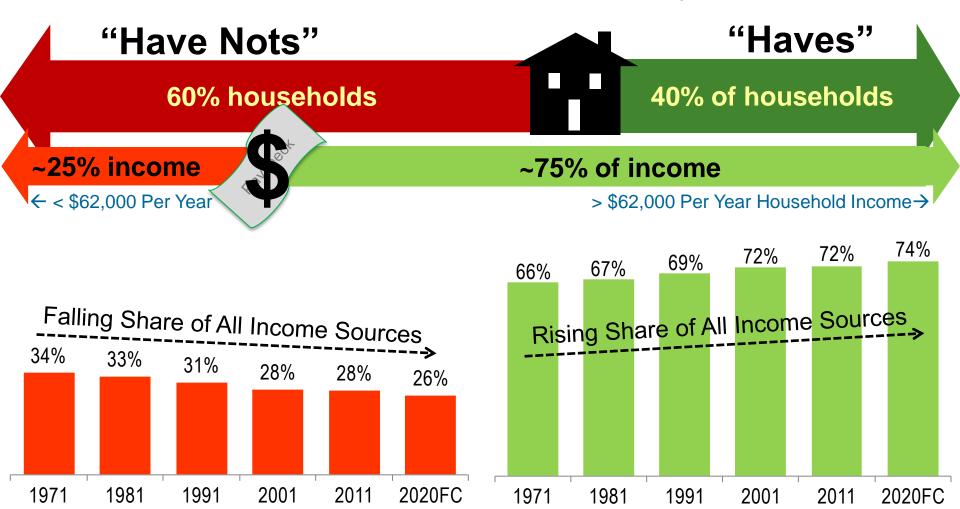
- The traditional "Mom" audience still primarily Gen X
- The speed of the arrival of Gen Y as important consumers cannot be overestimated
- Like the population as a whole, these new shoppers are economically split, reinforcing the need to create brand awareness at the Value end of the spectrum
- Shopper trip and shopper mission behavior is similarly nonuniform and even more likely to change dramatically
- Action: Identifying and learning to leverage variable behaviors by age and economic cohorts will be key aspects for brand development in a polarized market

"Any store built today will have a useful life that extends beyond the shopping life of the last Baby Boomer." - JR

Shopping Modes Shift by Cohort, Economics

	Shopping Mode	Key Trends and Shifts
	Low-Cost Replenishment	Most common approach, declining in use for all Have shopper cohorts except Boomers, core to Have Nots
SALE	Thrill of the Hunt	Steady presence at #2 spot across all cohorts—deal seeking a regular part of shopping routines—but less important for Seniors
	Speed & Convenience	Equal importance across all cohorts
	Sense of Discovery	Disproportionately important to Gen Y
	Self-Expression	Growing more important for all shoppers, but of greatest importance to Gen Y
P q A	Solve a Problem	Shoppers least likely to be explicitly shopping for solutions

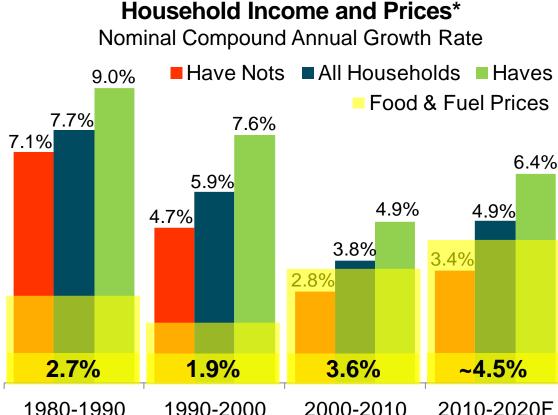
Income Divergence Splits Haves/Have Nots Means "middle" is squeezed in multiple ways



The Importance of Prices

Price Trends Aggravate Income Divergence Between Groups

- Income growth of Have Not households has fallen behind rising food and fuel prices
- Shopping / spending behavior changing in response becoming increasingly valuefocused
- Have Not households will become further constrained and pricefixated over time

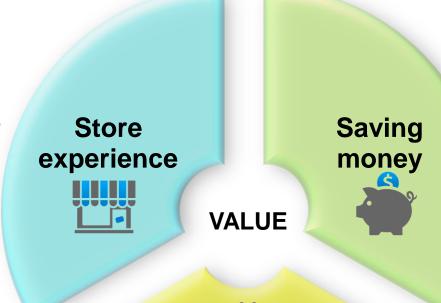


*Haves = households with 4-year degree or more Have Nots = households with some college or high school diploma or less

Changing Nature of Value Shoppers have Multiple Prevailing Approaches to

Maximizing Value

Value creation created through alignment for the shoppers' experience



"Value as price"

Purchase Satisfaction

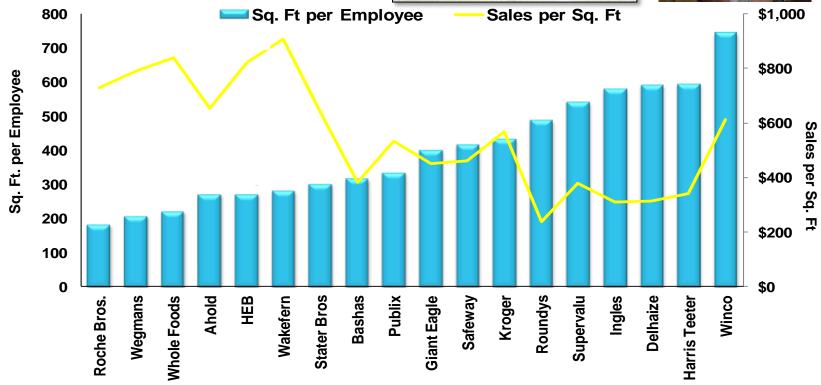
Quest for ever-better value: "a good deal"

Strong Service Complements the Presentation Facilitates Sales Growth & Heightens Experience









What Has Happened to Price / Value

A rough cut – an hourglass picture



- Of the top 67 supermarket retailers in the KR database, there are roughly as many characterized as Value (19), Premium (21), and Mainstream (27)*
- But projected dollar growth 2013-2018 is:

-Premium 26.6% (CAGR 4.1%)

-Mainstream 7.2% (CAGR 1.4%)

-Value 66.2% (CAGR 6.2%)



^{*}Estimate based on price competitiveness to Walmart, brand position, and promotional behavior; supermarket channel only

Higher Costs Plus Lower Revenue = Cash Flow Pressure

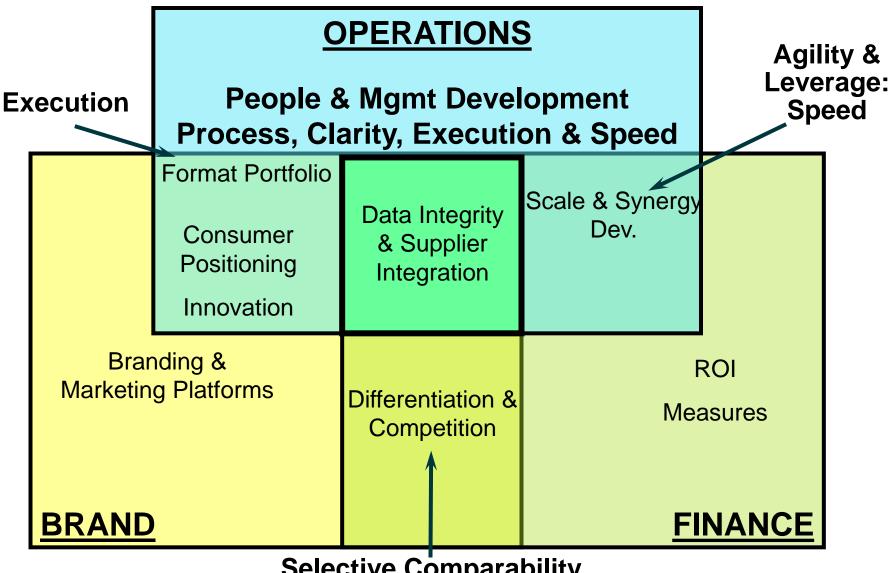
Five Key Trends

- Income distribution will expand, not contract
- Price point sensitive retailers in strong position both "need" and "want" for value
- Long-term, boomers approaching/at retirement under pressure
- Anyone getting paid by the government will feel an intense pinch
- Low-income broadband penetration will create more valuecentric online offers

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The Trade-offs at the Points of Intersection....



Selective Comparability

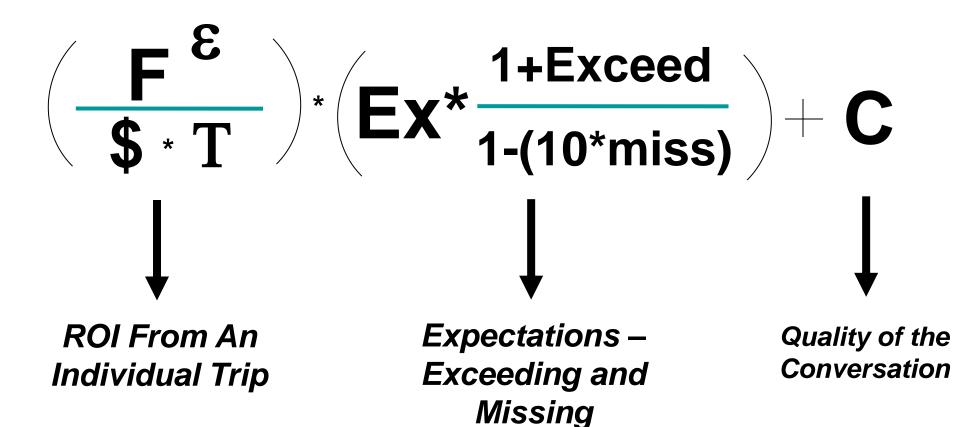
Unpacking the Store as a Brand Shopping is a Function of Design





KR Framework: Shopper ROI

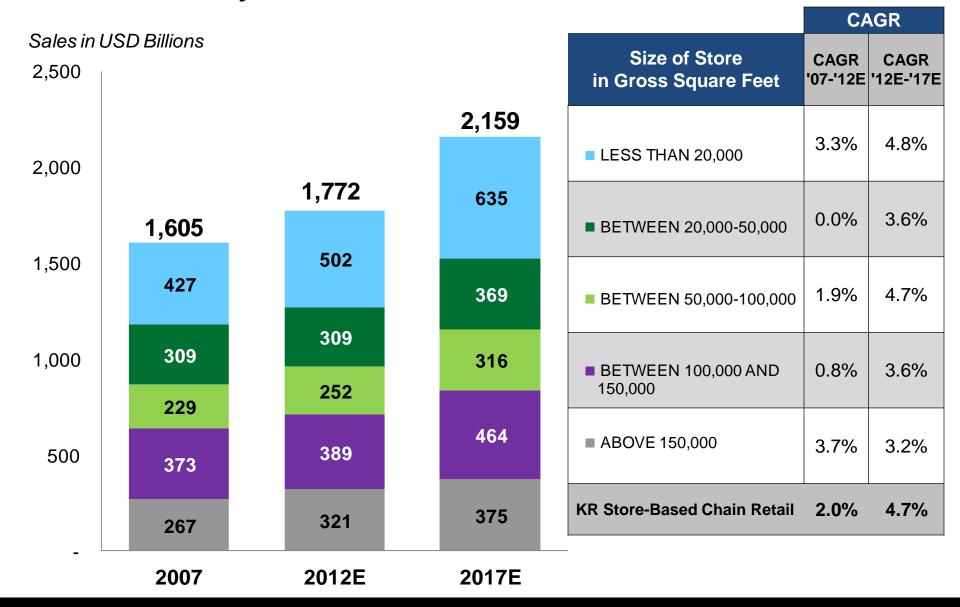




Shopping Convenience Drives Trends

- Convenience in Boxes: Urban retailing and small box trends
- Convenience in Offer: Curated assortment
- Convenience in Access: Digital and E-Commerce
- Convenience in Decision Merchandising to a 21st century shopper

US Sales by Box Size



Competition Experimenting in Urban

New Formats Forging New Shopping Experiences



Mass





- Infiltrating urban locations
- Shuttles to stores
- Site to store

Online



- AmazonFresh
- Home delivery
- Free shipping
- One-click transactions

Grocery



- Improved convenience
- Home delivery
- Mobile apps

Heading in Few Directions with Small Value vs. Premium vs. Hybrid

Downsizing & Cutting Prices & Assortment: Value

Stripping Out Center Store: Premium **Experience**

Hybrid Mix of Perimeter & Center Store: Convenience





~ 30,000 sq. ft. specialty foods format Service oriented: includes event • Customers will be checked out by staff coordination and party rentals, as well as educational classes focused on wine, beer, and food pairings.



- ~6,800 square-feet
- Expanded grocery product selection (includes fresh produce and meat)
- Food service counter (featuring new breakfast, lunch and dinner menus)
- Fuel station/pumps
- Beverage bar

- 46,000 sq. ft. limited assortment format. No bakery or pharmacy
- but they either bring their own bags or pay 5 cents per bag.

...Or No Store At All

Virtual Aisle: Mobile/Online Shopping



- Location: Chicago's Transit Authority
 State/Lake tunnel
- Products include a QR code where Android and iPhone smartphone users can download the Peapod Mobile and add the item to their online shopping cart for either next-day or any day







Produce & prepared foods.

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SKU Velocity Instructive Edited Assortments Are Effective

Format	Retailer (US Sales and Stores Only)	 iles/SKU* ousands)	ales/SKU/ pre/Week
Warehouse Clubs	Costco	\$ 16,954	\$ 767.14
	Sams	\$ 9,349	\$ 299.64
	BJ's	\$ 1,567	\$ 153.79
Home Centers	Home Depot	\$ 1,540	\$ 15.07
	Lowe's	\$ 1,233	\$ 13.85
Mass Merchandise	Wal-Mart SC	\$ 1,583	\$ 10.08
	Wal-Mart Disc	\$ 243	\$ 7.52
	Target SC	\$ 130	\$ 9.98
	Target Discount	\$ 817	\$ 10.39
Office Superstores	Office Depot	\$ 588	\$ 10.06
	Staples	\$ 885	\$ 11.03
	Kroger	\$ 1,787	\$ 14.11
	Safeway	\$ 1,039	\$ 11.91
Supermarkets	Ahold USA	\$ 589	\$ 14.99
	Publix	\$ 674	\$ 12.39
	Delhaize America	\$ 905	\$ 10.55
Limited-Assortment	Aldi	\$ 6,586	\$ 105.98
Grocery	Trader Joe's	\$ 2,088	\$ 106.77
	Save-A-Lot	\$ 3,493	\$ 52.48
Discounters	Dollar General	\$ 1,346	\$ 2.61
	Family Dollar	\$ 1,554	\$ 4.26
	Walgreens**	\$ 1,366	\$ 3.38
Drugstores	CVS**	\$ 1,787	\$ 4.69
	Rite Aid**	\$ 406	\$ 1.66

The value to a retailer of higher turns is dramatic which reinforces a trend toward smaller more convenient buildings

^{*}Using 2011 Values from Retailer Reports and KR Estimates

^{**} Front-End Merchandise Sales Used for Calculation

Learning from a Failure

- One of the things Tesco's Fresh & Easy did right was to make most of the store's fixtures mobile and moveable, so you could change the layout over a weekend.
- Refrigeration cases had self-contained compressors only requirement an AC outlet
- That kind of flexibility and ability to do a "face lift" can be a big advantage as consumers evolve and relocate and as digital fulfillment alters the demands on the store

Online Grocery Still a Tangential Business in US

Safeway & Ahold still lead; more experimentation regionally

2011 US Grocery		Online <i>Grocery</i>	Online Share of Grocery Sales		Offline CAGR	Online CAGR	
Channel Sales Rank	Retailer	Operations	2011	2016	11-16E	11-16E	
1	Kroger	N			5.0%		
2	Safeway	Υ	0.9%	2.4%	1.1%	23.1%	
3	Publix	N			3.7%		
4	Ahold US	Υ	3.0%	4.7%	2.3%	12.4%	
5	Supervalu	N			-4.0%		

meijer

Home Delivery

freshdirect.













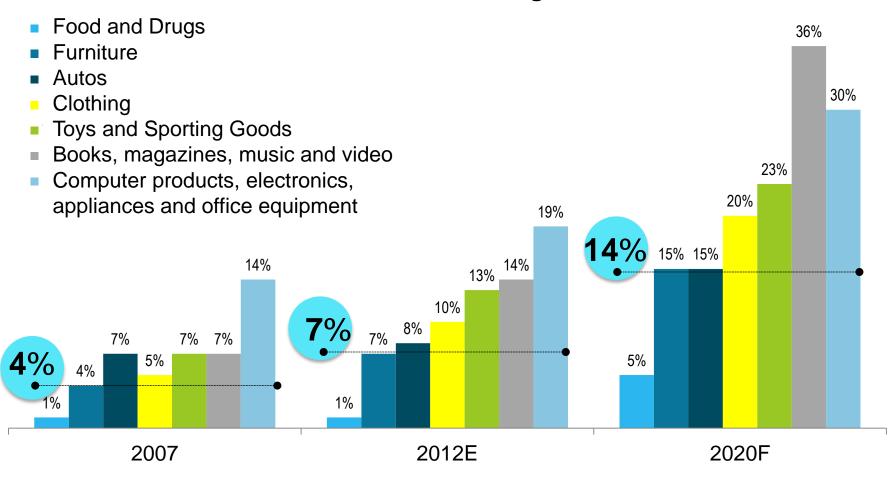




April 2012

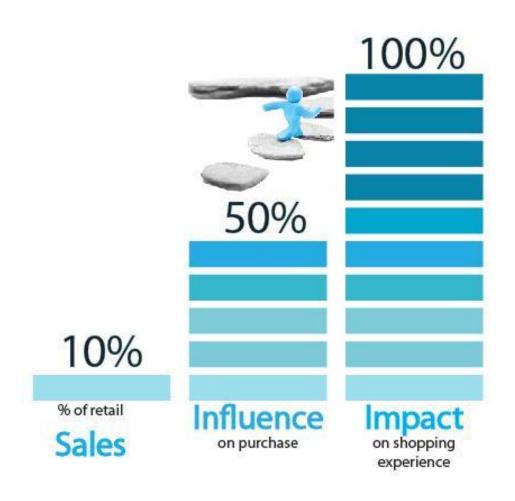
Shift Online: Impact on All Categories Think about impact that is indirect, direct, and in stages

Online Share of Categories



Online Impact Reality: 100%

Even if you don't sell much online (today), the impact extends well beyond eCommerce



Everyone Vulnerable to Amazon

Amazon became the most cross-shopped retailer in 2012 ... replacing Walmart



^{*}Read as: In 2012, 71% of monthly Nordstrom shoppers shopped Amazon.com during the past four weeks. Arrows indicate percentage point difference, 2008 v 2012.

Mobile Has Significant Role in Digital Enhanced Path to Purchase



Walmart Leading a Transformation

To influence and assist shopper along the path





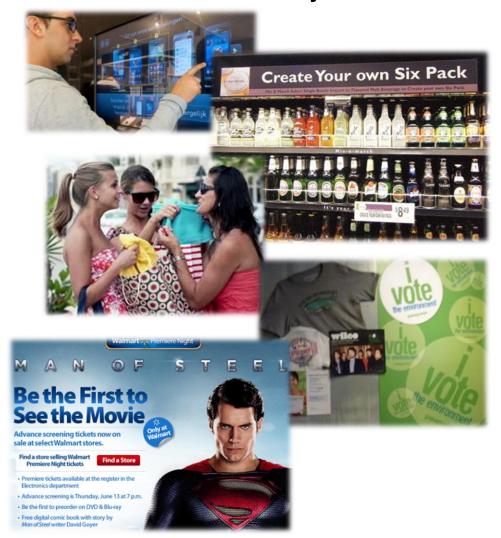
Function & Inspiration



Cohort Reality:

Rethink who is likely to be in store





DIFFERENTIATED APPEAL

Fun

Discovering New

Supporting Brands/Retailers that Support Values

SHOPPING MODE

Self Expression



Online and Mobile Deliver Improved Experience What's to Do?

Category management must refocus – it's not about shelf space, it's about effective merchandising



Online consumers have made a shift in behavior that is becoming pervasive:

- I want...
 - comparison information on demand
 - an enhanced ability to search
 - shopper peer reviews and popularity ranking
 - related items highlighted (this goes with that)

The Online Influenced Shopper's Expectations

Time	Inform	Compare	Linkage
 Easy search 	Research	Side by Side	 This with that
 Flex time 	 Details 	Multi-vendor	 Solutions
 Speed of Decision 	SourcingIngredients	PricingRankingsPeer reviews	• Intelligent suggestion

Shopper Confidence and Decision Enablement

Make the Store More Effective

Align to the new online shopper's expectations

What's New - Visually impactful in the aisle

Best Sellers and Highly Rated – the CPG industry owes the shopper some shelf guidance

-Items that are not fast or prized are going to be online "long tail" items anyway

Solution Sets – leadership to cross-merchandise relentlessly to solve shoppers' problems is a major opportunity and a distinguishing capability between forward thinking retailers and those less likely to gain share

Can we *please* merchandise a store, not a set of departments?

Summary Observations of Retail Response

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- Grab and Go sections will increase
- Signage effectiveness, a dramatic improvement
 - -Navigation at the item level
 - -Ingredients, dietary, etc.
- Lighting becomes a key element at the shelf level
- Color creates drama and breaks up "walls of product"
- Open space used more creatively
- Off-shelf merchandising
 – solution-oriented groupings beyond the temporary display

Sport Chek Elevates Experience "Living lab" store opened January 2013









Health & Wellness Store Within-A-Store Concept SAFEWAY ()











children's wellness

Display signage that ties to overall H&W message



Disrupting the Center Store







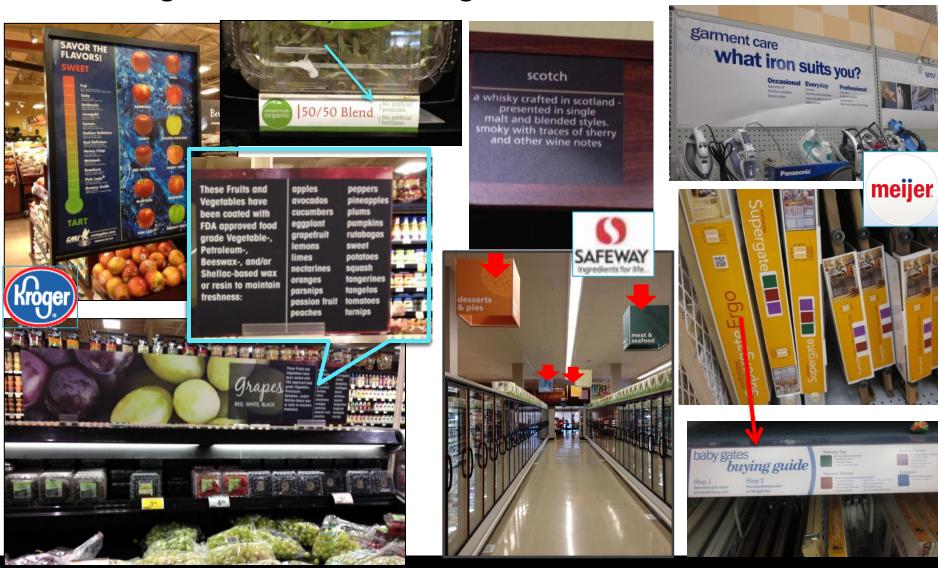




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Making Decisions Easy Offering Guidance Through Purchase Decision





Store Navigation: Expect Better Adjacencies



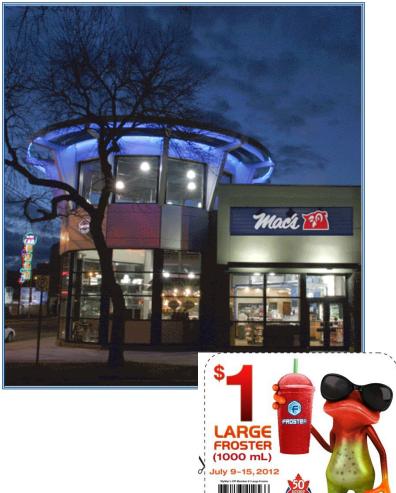
Lowe's expects 50% of comps growth to come from bigger tickets = cross selling



Convenience for TJX shoppers could include guidance - "what else goes with that"



Mac's Markham ON









Sheetz – Scranton, PA





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