FMI THE VOICE OF FOOD RETAIL
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2013 E+SD

booz&co.

Tomorrow’s Trends Delivered Today

Store Design Trends – The Path to 2025

today’s shopper
Food at Home
pricing power
channel fragmentation

Topics for Today's Discussion

- **Introduction and Objectives**
- The Challenges of Capacity and Demand
- Consumer Trends That Will Reshape the Industry
- Merchandising/Marketing Capabilities Driving Growth
- Store Design Innovation
- Technology as a Differentiator
- Capabilities Needed to Win
  in Tomorrow's Market

Our discussion is based on foundational research from four partners contributing to a "look into the future" of food retailing.

Primary Customer Research

- Custom survey of over 1500 shoppers
- Deep dives into key areas
  - Consumer Attitudes and Preferences

Industry Data

- Partnerships with key industry data providers

nielsen

CATALINA

CROSSMARK
The Way To Market

Interviews with Industry Experts

- Interviews with 25 C-level retail executives
- Interviews with Booz & Company retail experts across several geographies

As a starter – let's all sit back and *get uncomfortable.* Two truths to discuss today

1. ***"Retailing is going to get more complex than we have ever experienced."***

2. ***"Many retailers will not survive this complexity challenge."***

Tomorrow's store designers will become strategic.
Two more truths to discuss today.

1. *"To win store designers will focus on engaging the shopper."*

2. *"It is critical for the store design team to be <u>heard</u> in the executive suite."*

US Retailer and CPG Manufacturer C-Level Perspectives on Current and Emerging Industry Challenges

1 Growing **concern as to where to find real growth** opportunities

2 Increasing **channel fragmentation further exacerbated by excess capacity** across all grocery category retailing channels

3 Changing **dynamics of consumer behaviors** including profiles and preferences

4 Understanding and adapting to the **rapidly changing implications of technology**

5 Increasing **competition and diminishing advantage** of scale

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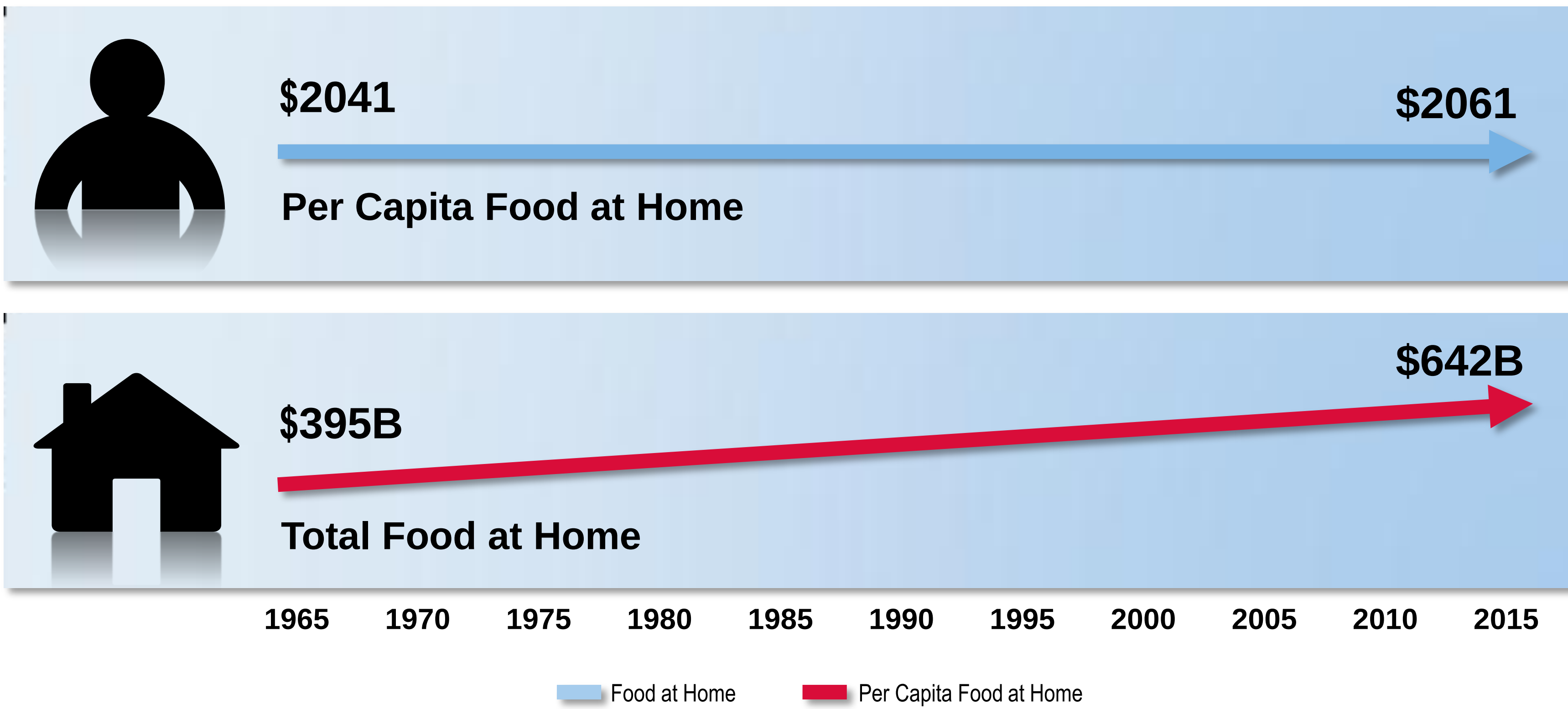
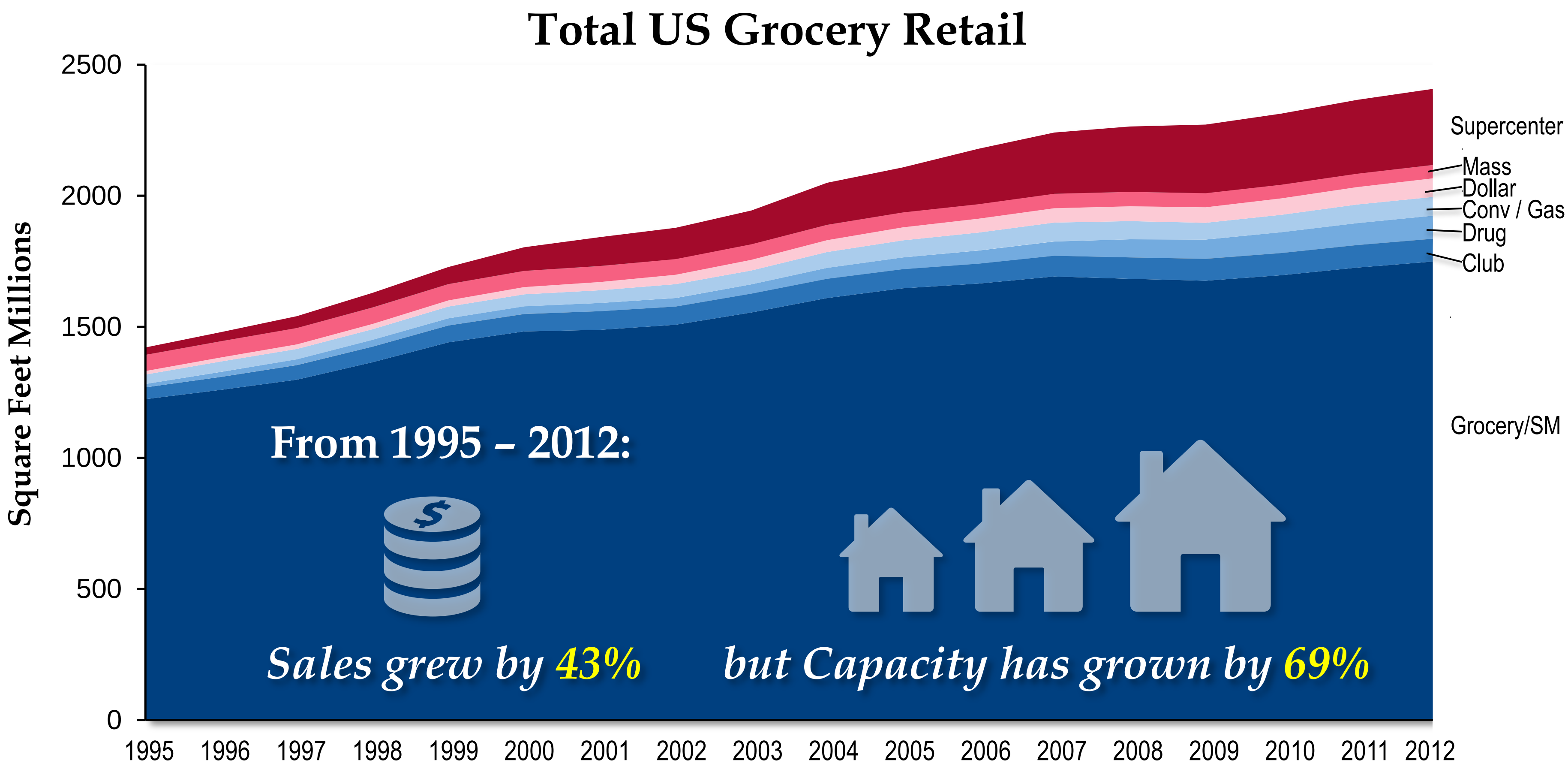
Historical US per capita spend stagnation on food is not a new phenomena – *we project continued flat consumption through 2025*

US Consumption: Food at Home $2010



Source: US Department of Agriculture Food Expenditure Data; Booz & Company Analysis.

Despite low growth, the grocery industry has added significant capacity, across all formats – *increasing supply/demand imbalance*



Traditional grocers are trying to respond – *unclear if many understand the level of differentiation required*

2013 FMI Study
Results of Executive Interviews Among Grocery Retailers

80% Use **pricing as the primary value creation strategy** – strong move to EDLP

65% Heavily **invest in the perimeter** of the store

60% **Upgrade private brand** capabilities and offerings

45% Execute another round of **cost optimization** measures
Open new stores to compete

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Shoppers identified the complex lens driving today's shopping experiences – *expect more of the same*

I am…

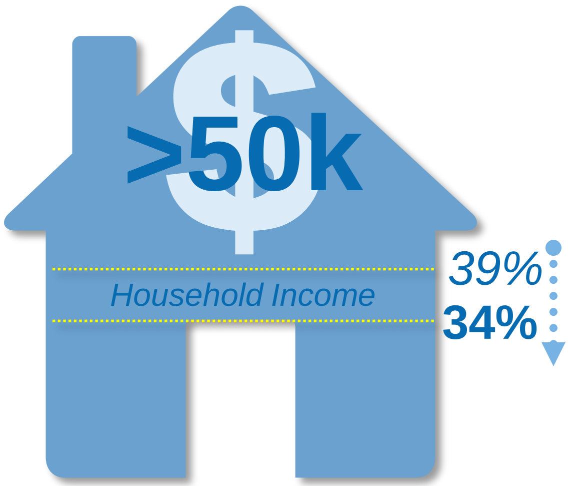
- Time stressed
- Value seeking
- Very sensitive to pricing
- Trading down
- Convenience oriented
- Growing interest in prepared foods
- Shopping for a healthier lifestyle

I expect my store to be…

- Simple to shop
- Convenient to where I live and work
- Competitively priced
- Pleasant but not fancy
- Great quality
- Good experienced and knowledgeable service
- In-stock
- Uncluttered

More than ever understanding shopper basic economic realities is critical to success – *Selectionists and Survivalists*

Selectionists

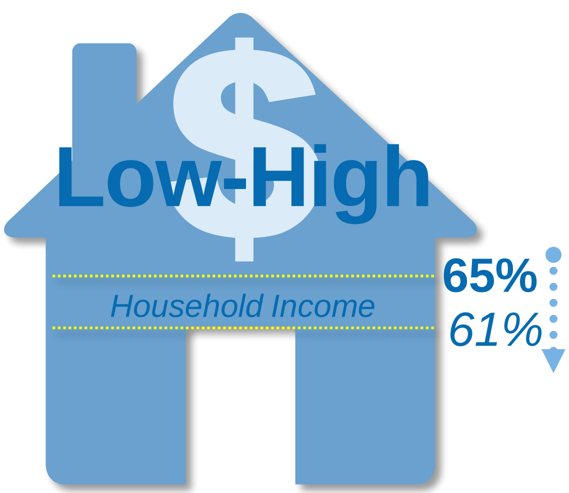


Selective cutbacks of premium products (basic and aspirational) **continued** in 2013

Channels of Choice:

Walmart
EDLP Grocers
Value/Discount Stores
Dollar Stores
Clubs

Survivalists



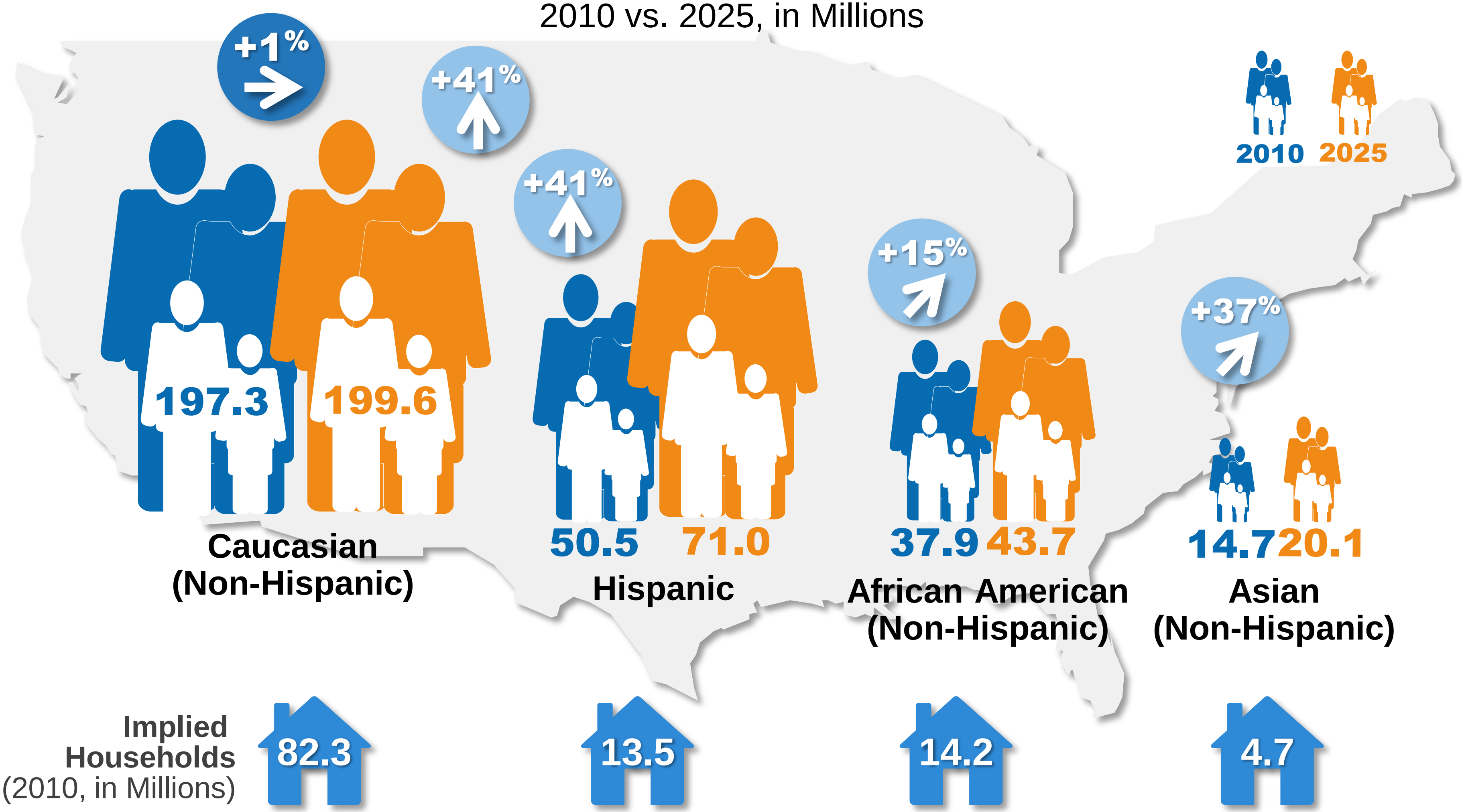
Substantial cutbacks of value products (basic and affordable premium) **continued** in 2013

EDLP grocers
Supercenters
Club Stores
Specialty Food Retailers
Value Stores

Source: The Dialogic Group LLC – 2011, 2012, 2013, n= 1200

In the US, almost all population growth is ethnic – *do CPG players really have targeted strategies to exploit this shift?*

Projected US Population Growth
2010 vs. 2025, in Millions



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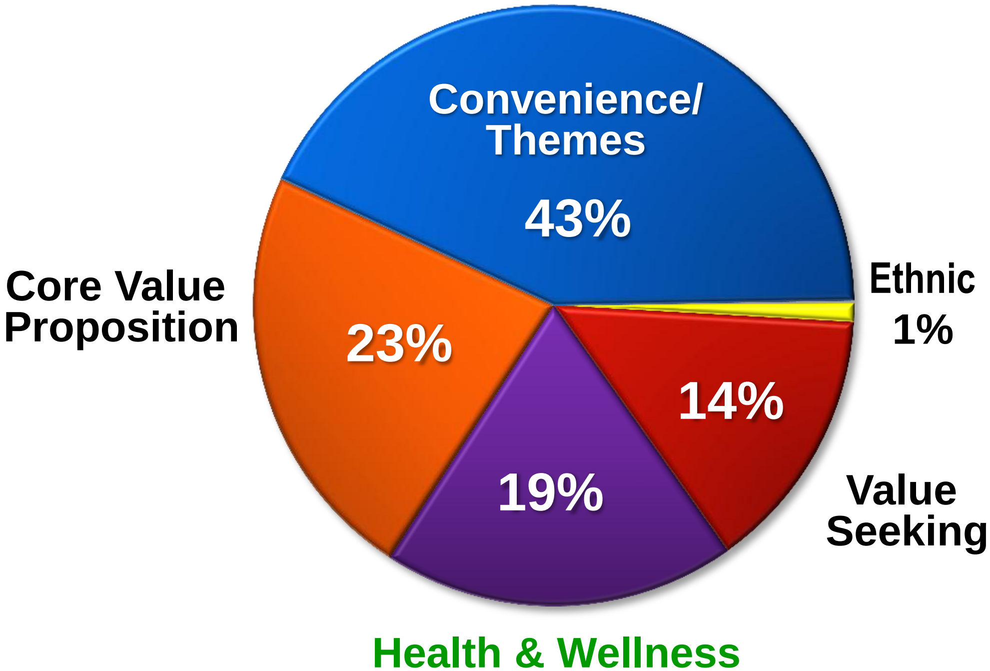
Merchandising displays are also a proven capability to drive growth – *however improved strategy/execution is needed*

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**
  – ~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.

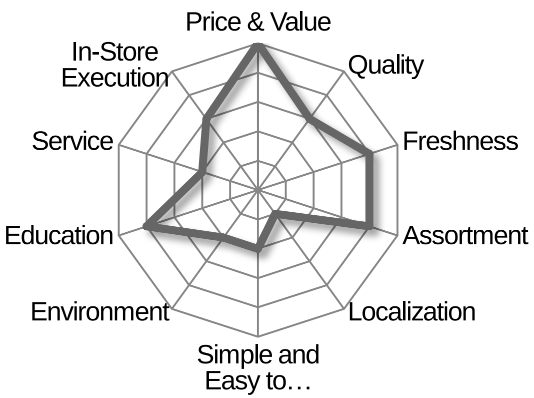
Note: Convenience/themes include snack & meal solutions; Health and wellness includes eco friendly, health & wellness and organics; Ethnic includes Asian, Hispanic and other ethnic.

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

Different trip types require unique "value positioning"

booz&co. Retailer Coherence Index: Target Shopper Need States

Price Conscious Stock Up



Experience Driven Stock Up

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

- 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

- 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

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Design strategies have transitioned to a much more difficult challenge – 12 *design criteria emerge – Shopper Perspectives*

Shopper Design Considerations:

- Shopper **“emancipation” forces a Reboot** at Retail
- Shoppers can be **loyal – if you link with them** emotionally
- Champagne **tastes** on a beer **budget**
- **Comfort, prestige, caring** – what does your store design say
- Not to get personal but --- the **holistic retail experience**
- Innovation reigns – **holistic innovation**

Design strategies have transitioned to a much more difficult challenge – 12 *design criteria emerge – Retailer Perspectives*

Retailer Design Considerations:

- Coloring **outside the category lines**
- Communicating **the brand promise** – go big, go dramatic
- Brand **reputation is everything**
- Epicurean delight – **retailers get serious** about ready to eat foods
- The **incredible shrinking expansion**
- Quick thinking – **smart devices, smarter purchase decisions**

We asked shoppers about store design – *and this is what they had to say*

- **We first and foremost want value –** ***forget the frills – simple value***
  "Quality received per dollar spent"
- **We appreciate all of the energy efforts being made –** ***"table stakes at best"***
  "This is one way we see retailers trying to keep prices low"
- **We do not have time to browse – we want a store that is** ***"simple to shop"***
  "Help me get to what I want quickly"
- **We often do not see the investments being made – "*****nor do we necessarily care"***
  "Make all of the investments you want as long as it does not affect my price"
- **You want to invest in the store, get the basics right – "*****help me buy what I need"***
  "*I get weary of trying to find merchandise; out-of-stocks bug me, and please reduce the shelf tags – they are more complex then ever"*
- **If you want to make layout changes, ok, but what is important to me is** ***"knowledgeable service***
  "It seems as if qualified and knowledgeable customer service is gone – this is the differentiator for me"

In summarizing the key store design innovations we see, four key trends have emerged – *think outside the box*

Designs for smaller store footprints and formats	Designs that clearly demonstrate convenience
Designs that exude continuous value	Designs that articulate a solid consumer understanding

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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

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

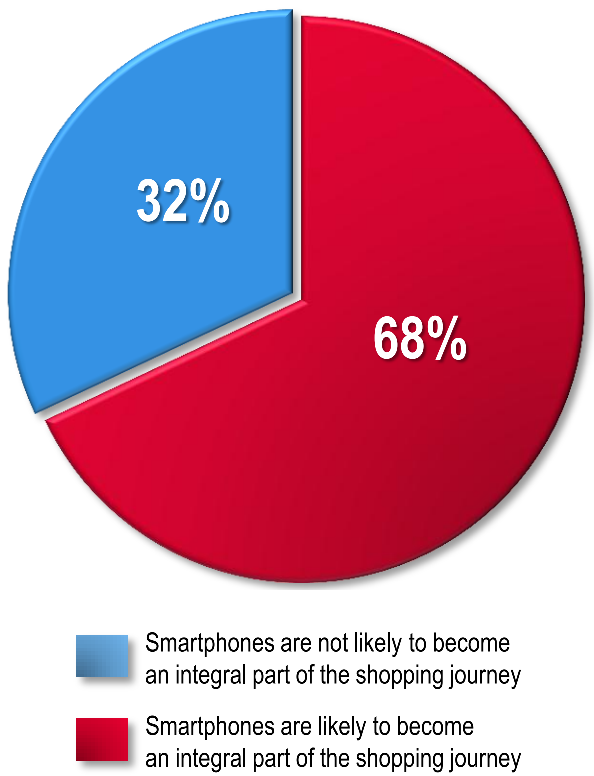
- The New Smartphone
  - 10x more powerful than today
  - 6 to 10X more on-board memory
  - New *personalized* form factor
  - On always "communicating for you"
  - 6 to 8X more power life
  - 100 plus applications "just for you"

Note: Includes all Asian ethnicities

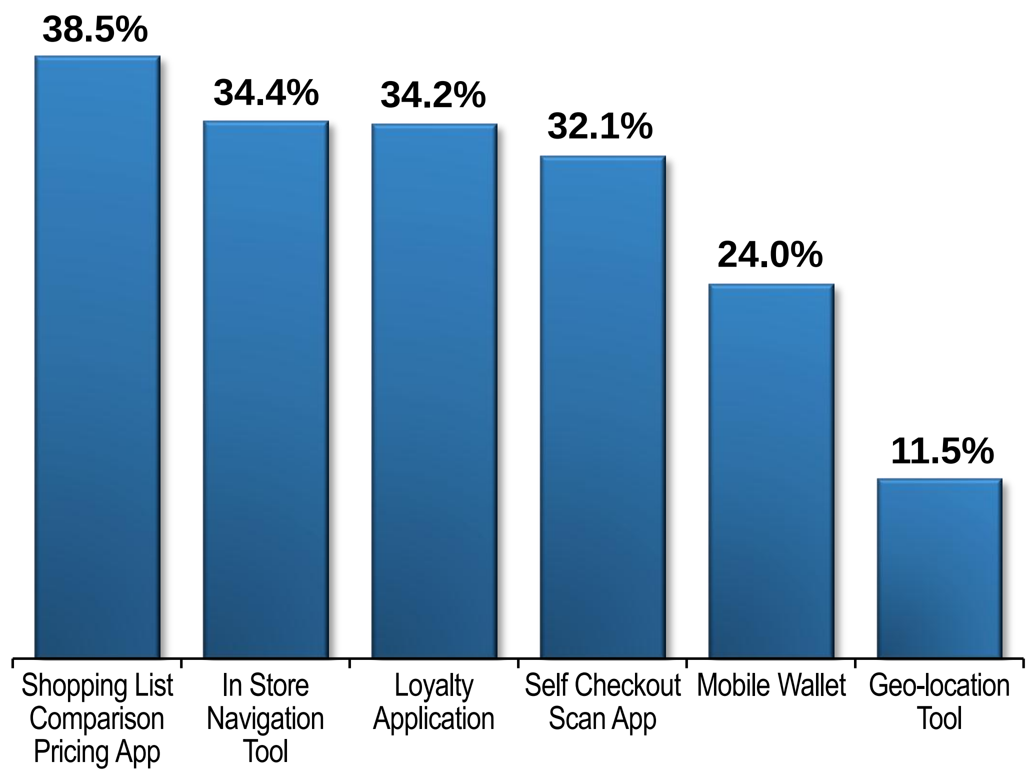
Shoppers are most likely to use mobile technology to obtain lower prices, read online reviews and search for online coupons

Significance of Smartphones in the Shopping Journey [1]

% of Shoppers, N = 1503



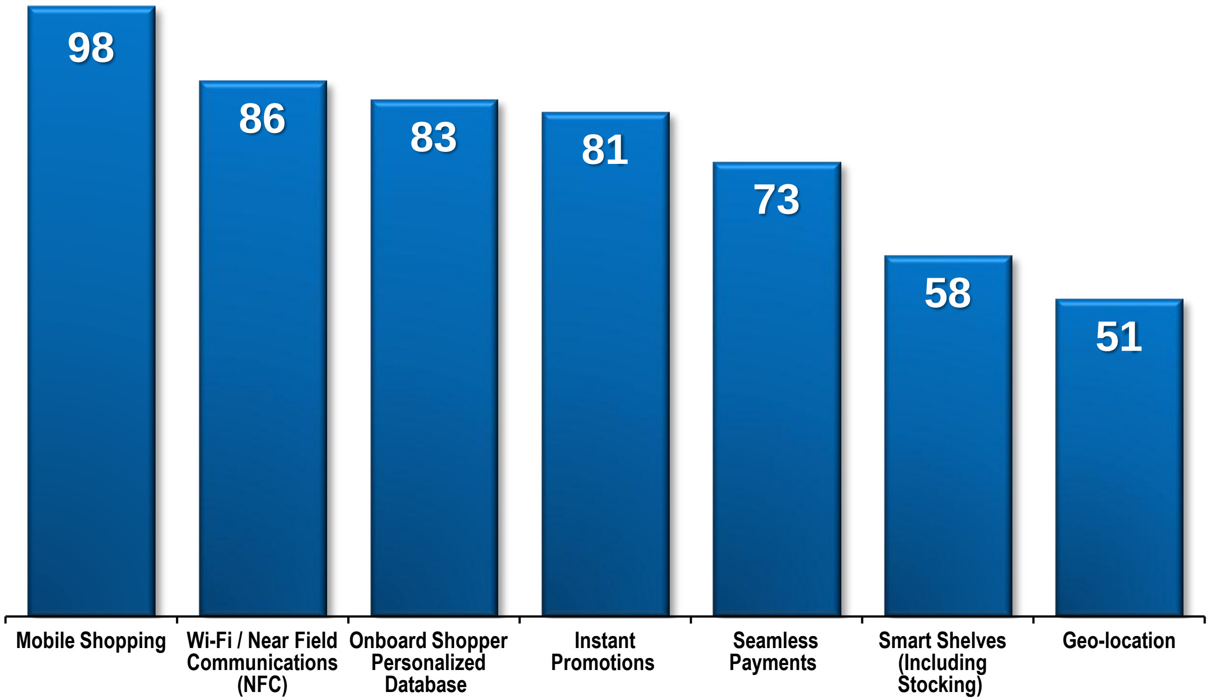
Anticipated Activities



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".

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

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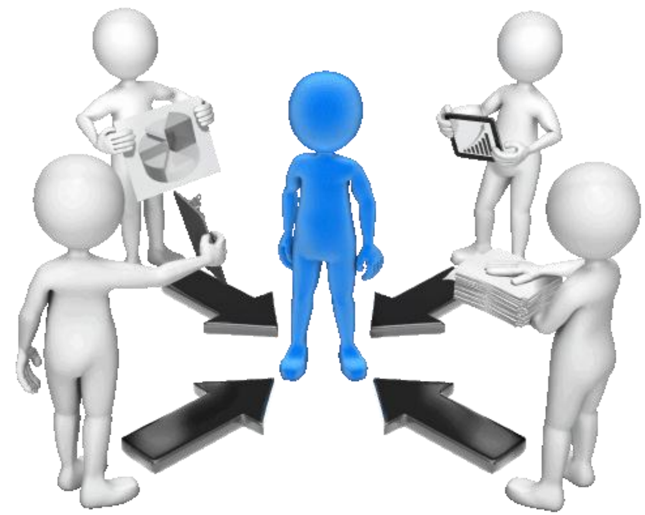
Summarizing today's conversation

- 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)

Winners at Retail will have a clear and well articulated store design strategy

If you have any questions, please send me and email and/or call

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