



Preparing for the Future of Grocery Shopping

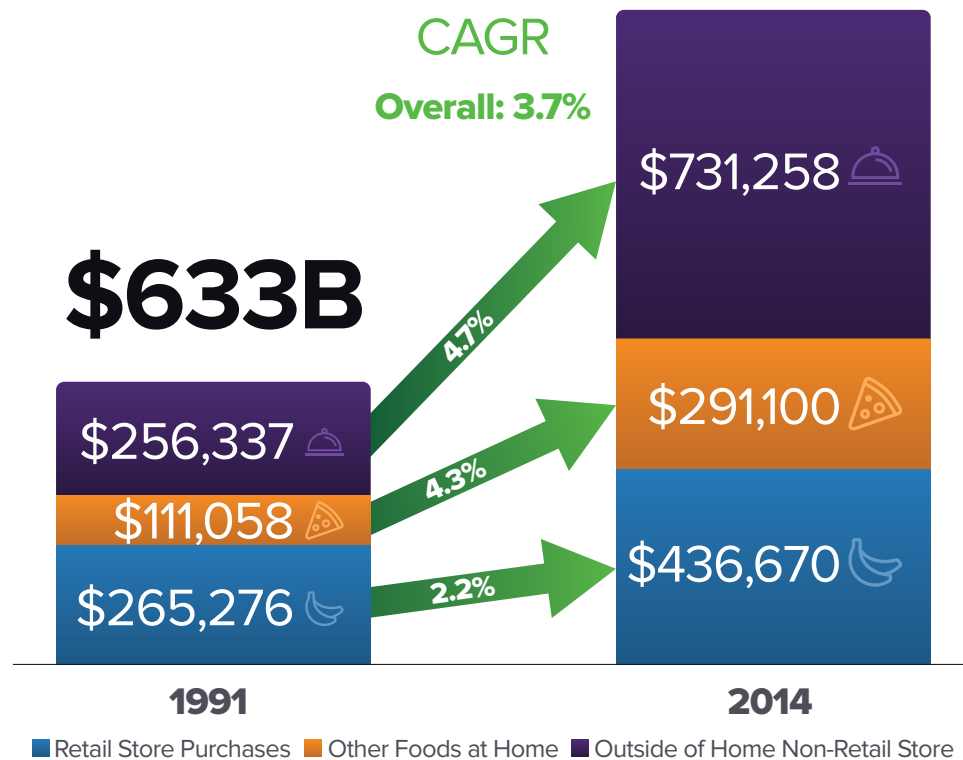
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Shifting Appetites and Innovation Erode Food Retailers' Share of Stomach

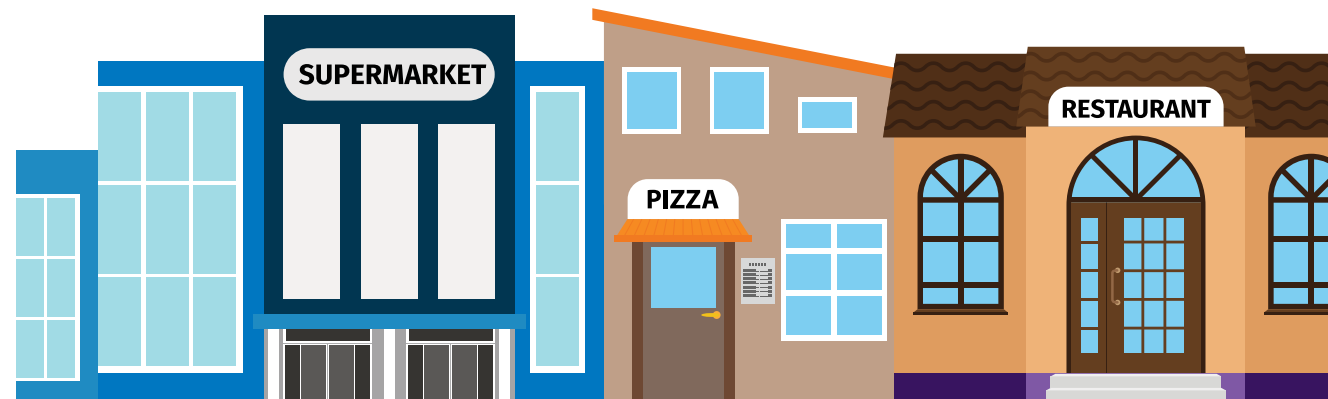
Total food spending increased **3.7%** annually from 1991 to 2014 but food retailers' sales increased only **2.2%** annually during that period, resulting in a market share loss of 12 percentage points.

Total Food Market, U.S., Current Dollars

\$1.5T



Outside of home CAGR is **2X** retail store CAGR.



Restaurants Are Innovating and Eating Up Market Share

- Cooking at home has declined as customers are migrating to fast-causal dining, takeout, and ecommerce options. Meal-kit providers are also gaining share in the market.
- Retailers must change how they compete and focus on share of total consumer spending on food no matter where it's sold or eaten.



61%
prefer eating out
experience versus buying
items from the store

39%
of adults want to eat at
restaurants more often



73%
say technology improves
their guest experience



The retail food segment is changing: traditional stores are upping their game, alternative retailers are competing for food spend, new competitors are entering the market and new challengers are emerging.

Retailers Compete on Different Bases, but All Depend on Customer Loyalty



Efficient buying and operating retailers can drive down costs and compete on low prices...



Private label retailers can capture high-margin sales with differentiated own-brand products...



Global sourcing specialty retailers can compete on eclectic assortments and treasure-hunt experiences...



Limited assortment retailers can create margin at low price points with streamlined supply chain, inventory, and operations...



Quality retailers can compete with organic, exotic, and other differentiated premium-priced product attributes...



Services retailers can compete with informed, motivated associates committed to customer satisfaction...



Retailers operating high-density networks of prime-location small stores can compete on convenience...

***...but only
if they
earn their
customers'
loyalty!***

Shopper Loyalty Is More Highly Prized than Ever Before



76% of retailers stated that the importance of loyalty has increased.

BUT



Shopper loyalty isn't just an emotion. It's behavior that rewards itself. Loyal shoppers allocate a significant portion of their food budget and shopping time to retailers that they trust to consistently meet their needs. They verify that trust every day. Retailers need to satisfy a shopper's needs better than the competition.



Shopper loyalty can be earned and lost in many ways. With pragmatic customers it's functional fit, with others it's an experience. Many value function AND experience. Retailers can't take a narrow view of loyalty as a program. It's a multifaceted strategic approach that must be consistently executed across all customer touch points every time.

Your Shoppers Aren't as Loyal as You Think

Shoppers say they are loyal, and prefer to shop at a single store, but when it comes down to it, only **19%** actually do their grocery shopping at a single store in a typical week, and only **7%** spend more than **90%** of their food budget at a single store.



79%

Say they are loyal or very loyal to their primary grocery store

58%

Prefer to grocery shop at a single store



Meanwhile, **43%** of retailers believe their average customer is very loyal.

19%

Actually grocery shop at a single store in a typical week

7%

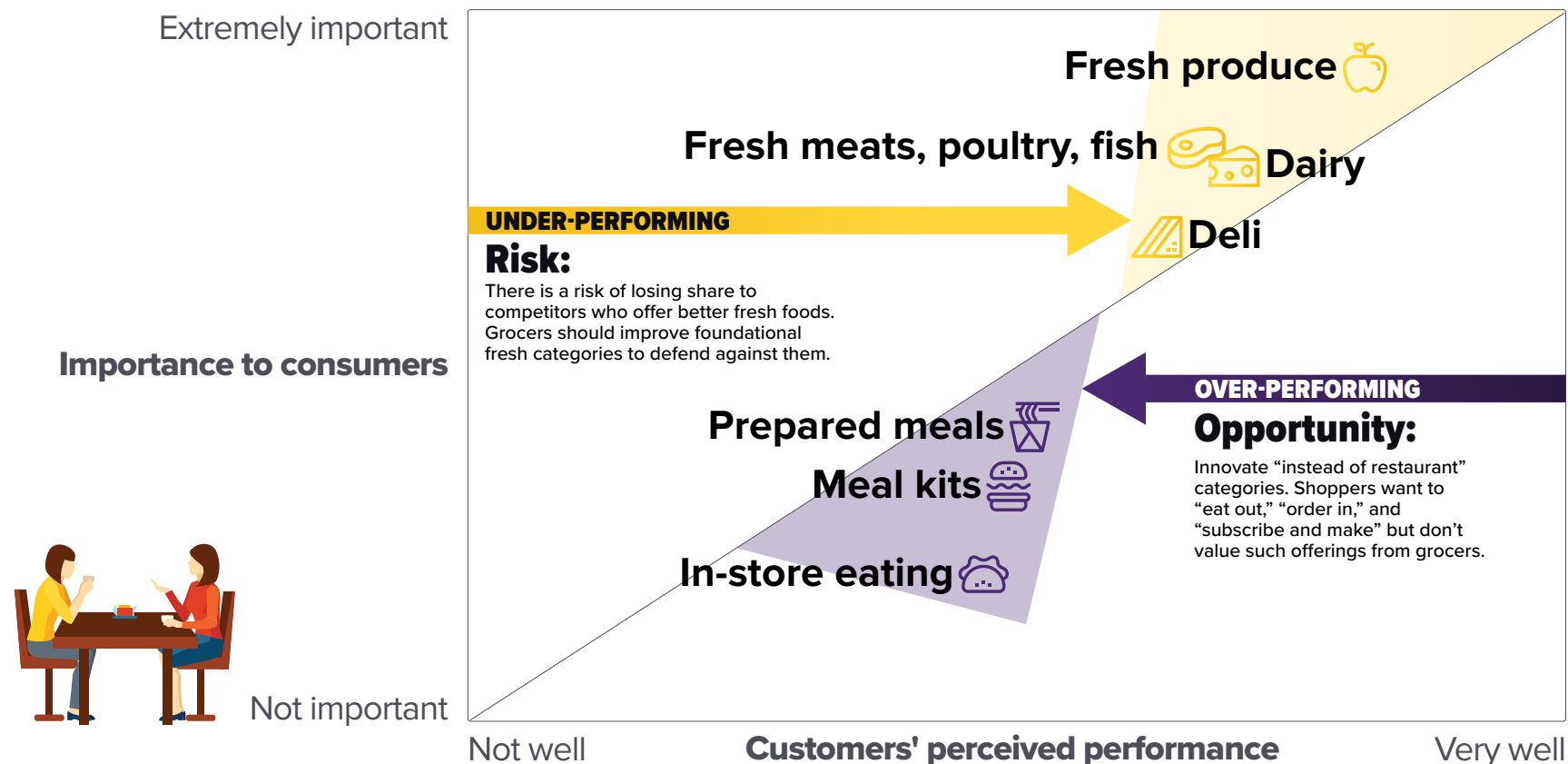
Spend more than 90% of their weekly food budget at a single store

Your Main Course: Improve Performance in Fresh Categories and Reposition Your Restaurant Alternatives

Fresh foods are very important to shoppers. Although primary grocery stores are generally performing well in fresh foods, they are underperforming relative to the importance consumers place on them.

In contrast, while prepared meals, meal kits, and in-store eating are much less important to consumers, grocers are performing well relative to their importance.

Grocery Stores' Performance vs. Consumer Importance by Category



Grocers have an opportunity to continue to innovate.

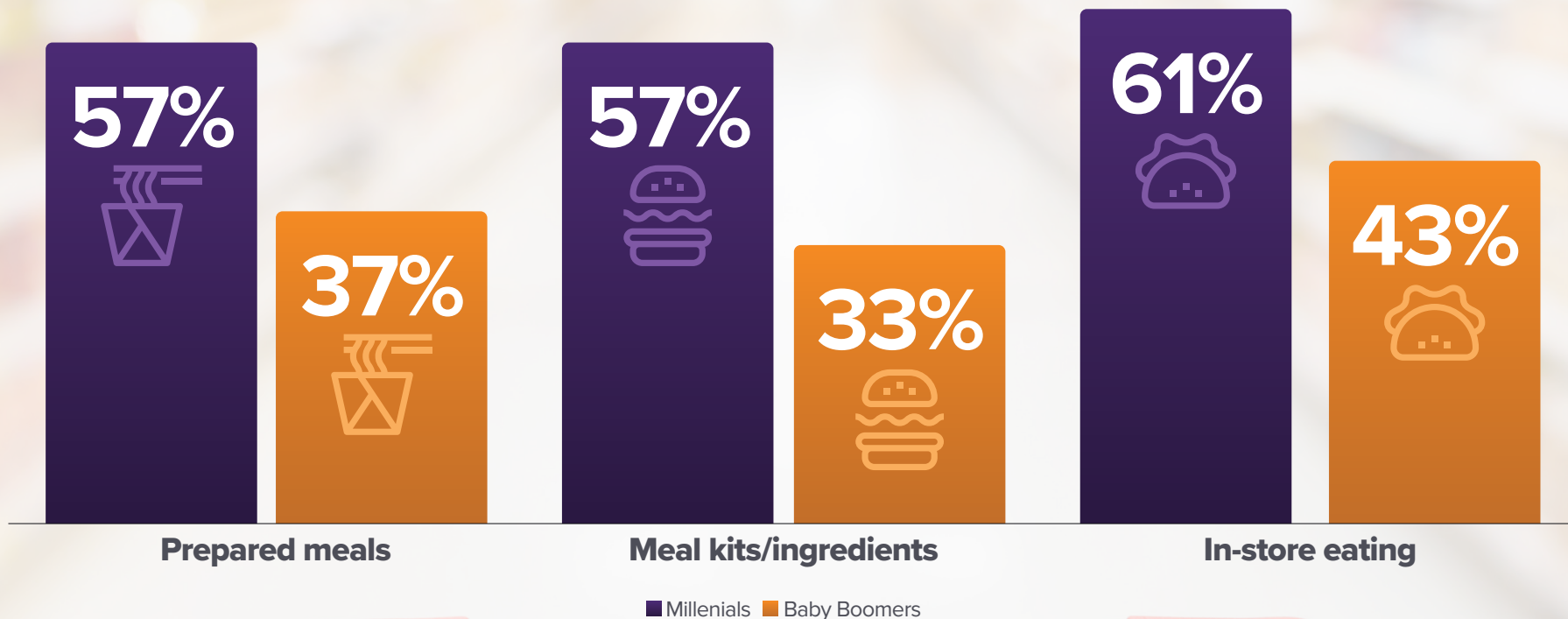


Restaurant Alternatives Are Important to Most Millennials

While prepared meals, meal kits and in-store eating ranked toward the bottom in terms of how consumers choose where to shop, these categories proved to be important to millennials.

Retailers have to execute a delicate balancing act. They need to ensure they continue to satisfy the needs of boomers while laying the foundation for their future shopper base: millennials.

Important to Deciding Where to Shop



Think Beyond Your Loyalty Program to Align Your Loyalty Strategy With What Customers Value

Think more like your customer! Retailers can miss what really drives customer loyalty if they focus too narrowly on loyalty as a program. There are many additional tactics to gain and keep loyal customers.

Retailers are too focused on aspects of the shopping experience (including the loyalty program) that matter the least to customers. They are underperforming on aspects that matter most to customers.

Performance vs. Importance in Deciding Where to Shop

Shoppers assign more importance to traditional aspects of grocery shopping (product quality, in-store prices, clean stores, customer service, short check out lines) than to customer engagement.

Retailers are *underperforming* in all of these areas.

Retailers are *overperforming* in areas of less importance to consumers: website, smartphone apps, ecommerce, branding/advertising, and personalized offers. **And loyalty program!**



Consumers rated importance and performance on a 5-point scale where 5=high and 1=low



Although Loyalty Is About More Than a Loyalty Program, Programs Do Play a Role

Loyalty programs are neither necessary nor sufficient to create loyalty but where they are done right they can have a positive impact.

Retailers that provide value-added components of a loyalty program are viewed in a better light than those that stick with a simplistic two-tier price discount program. Retailers that offer free delivery, additional services, and relevant personalized offers outscore those loyalty programs that mainly or solely rely on in-store price discounts. On the backend, retailers using the loyalty data to deliver value back to shoppers score higher.

Importance of Loyalty Program in Selection of Grocery Store

Retailers whose loyalty programs were most important to the grocery store decision provide:

- Personalized offers
- Programs linked to local charities
- Access to free services
- Free delivery

69%

35%

Has a loyalty program

No loyalty program

Retailers whose loyalty programs were least important to the grocery store decision focus on a two-tier price discount approach with limited additional value.



Shoppers Drop Out When Loyalty Programs Offer Too Little, Too Late

Shoppers want a quick return of value from loyalty programs. Dropping out is most often a case of “too little value, too late.” Unimportant rewards, too many irrelevant communications, and complexity are disincentives, too.

Few shoppers were turned off for lack of a smartphone app.

Loyalty Program Turnoffs



Top Reasons for Dropping Out of a Loyalty Program

Millennials

- No value
- Too long to get rewards
- Too many, irrelevant communications

Boomers

- Too long to get rewards

2+ Adult Households

- Too confusing
- Too long to get rewards

Urbanites

- Too many, irrelevant communications
- Irrelevant rewards

Upper Income Households

- Too many, irrelevant communications
- Irrelevant rewards
- Too confusing
- No value

Men

- Too confusing
- Irrelevant rewards
- Too many communications

Women

- No value

To Keep Your Customers Satisfied, Focus on the Big Three: **Price, Quality, Variety**

Align your strategy with customers' priorities

- Millennials, families with kids, and urbanites are less likely to want low prices compared to boomers. Price may become less important as boomers' share of total grocery spend declines.
- Consumers 71 and older stock up on promotions and spend time looking for them but singles and the poor aren't likely to buy ahead.
- Varied segments are more likely to want private label goods: urbanites, consumers with household incomes under \$20,000 per year, consumers with household incomes between \$75,000 and \$99,999 per year, and families with children.
- Small-town America is more likely to shop on price, with less regard to product quality. It's the opposite with urbanites.
- Households with incomes of \$50,000 or less want low prices and like to shop quickly.
- Millennials, families with kids, urbanites, and shoppers with household incomes of \$75,000 or higher are most likely to want a fun shopping experience.

Declared Preferences of Shoppers



Build Your Loyalty Program Based on What Customers Say Is Important

Think more like your customer! Retailers can miss what really drives customer loyalty if they don't have the proper handle on what customers value in a loyalty program. Generally speaking, retailers believe "everything is important" while customers are much more selective in what they seek.

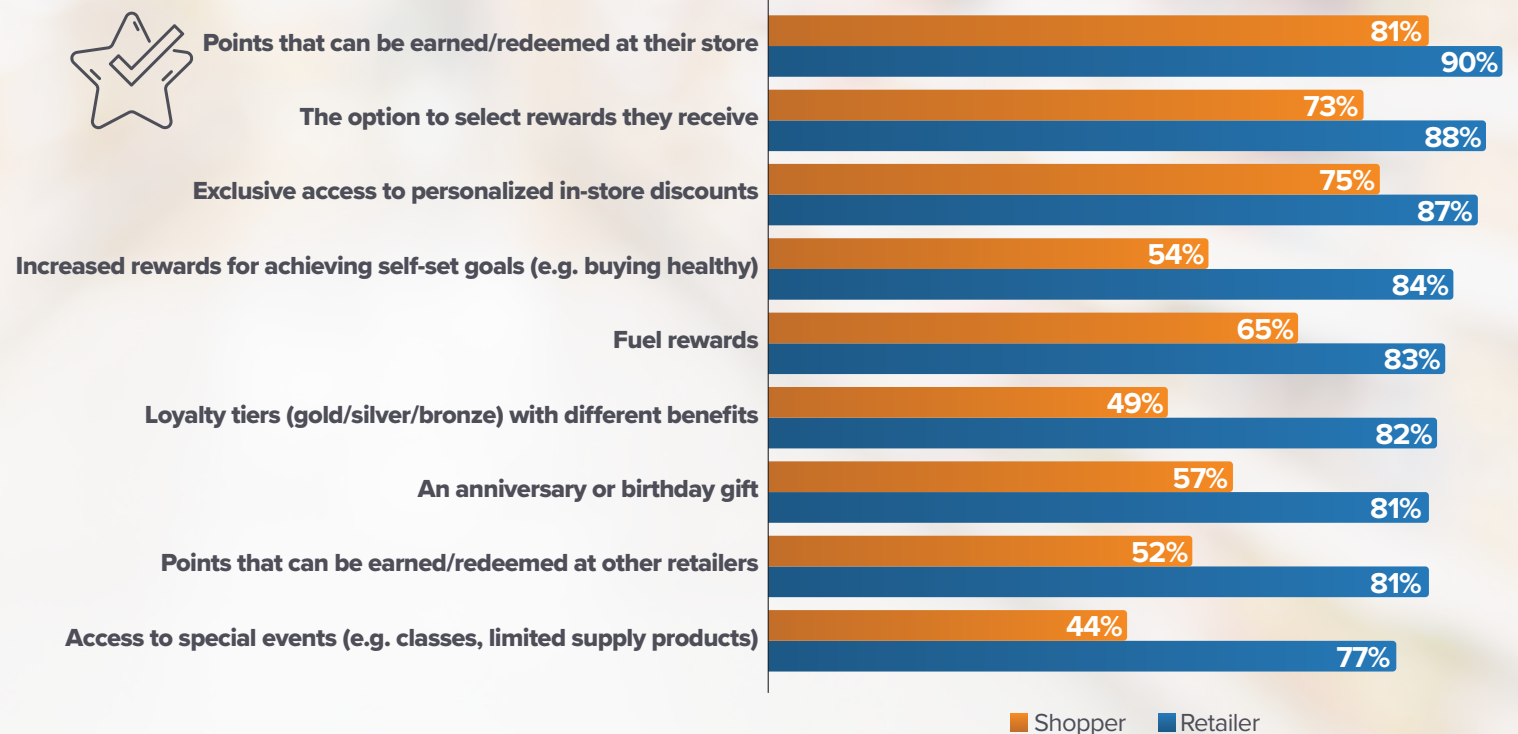
Items that are most important to customers include:

- Points that can be earned/redeemed at the store
- Access to personalized in-store discounts
- The option to select rewards

Of less importance to customers are:

- Access to special events
- Loyalty tiers
- Points that can be redeemed at other retailers

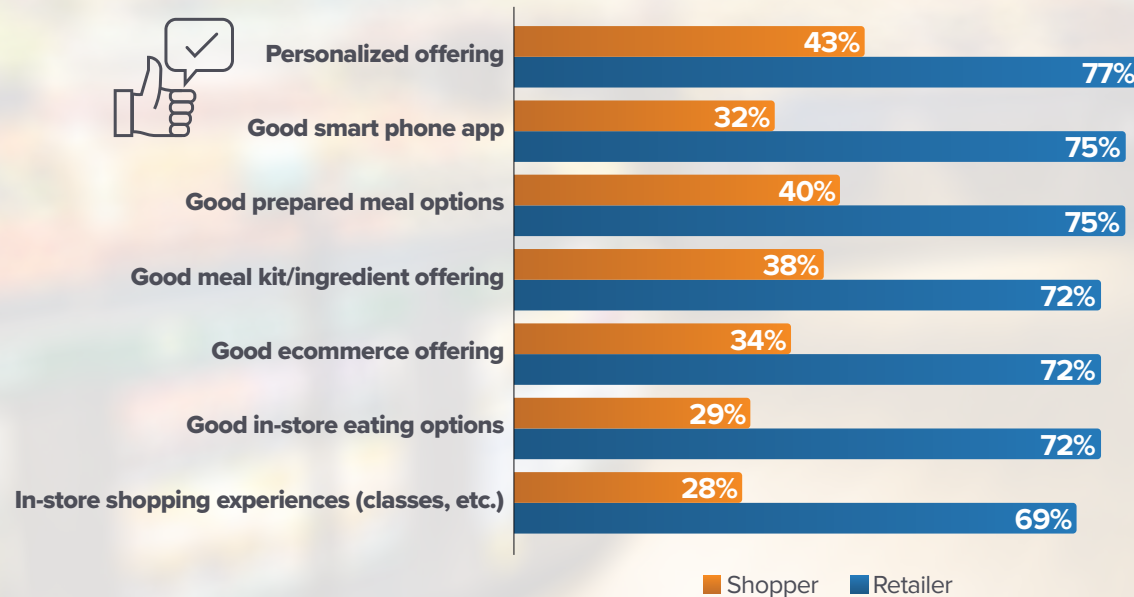
Importance in a Loyalty Program



Complement Your Loyalty Program With Value-Added Services Customers Say Are Important

Retailers tend to overestimate the value of value-added services, putting them at risk of straying too far from what's important to most customers. However, some value-added services are important to large segments of shoppers and can be important differentiators to attract these shoppers.

Believes Attribute Is More Important than Loyalty Program



Improving Loyalty Can Have Significant Bottom-Line Impact

Maximizing customer loyalty can have a significant business impact. A retailer implementing a holistic, end-to-end approach to loyalty can see improvement in sales and gross margin due to improvements in pricing and promotion, offering a better product assortment, and doing a better job of customer-centric marketing.

Improving loyalty could yield improvements in a variety of areas:



- Shopper-Driven Price and Promotion **2% to 5% Sales** | **4% to 6% Gross Margin**
- Shopper-Driven Assortments **2% to 4% Sales** | **2% to 4% Gross Margin**
- Shopper-Centric Marketing **1% to 3% Sales**



A **\$2B** retailer with a **25%** gross margin would expect to see these results:

- Sales lift of **\$70 million**
- Incremental gross profit of **\$30 million**

Summary of Findings



Shoppers believe they are loyal and desire to be loyal, but **they do not behave in a loyal way** because they do not have all their needs satisfied by their primary grocery store.



Retailers will be rewarded by shoppers who will consistently allocate an increasing amount of their food budget and shopping time to the retailer, which is the practical manifestation of shopper loyalty.



The core merchandising areas (**good prices, quality products, good promotions**) and core shopper experience elements (**clean stores, good customer service, short checkout lines**) are important to all shoppers. Elements such as **personalized offers, ecommerce, and digital engagement are more important to millennials.**



Fresh food and center store food departments are most important to all shoppers; non-food center store departments are less important and are also more likely to be purchased via ecommerce.



Prepared meals, meal kits, and in-store dining are **more important to millennial shoppers.**

Recommendations

It is essential that food retailers take a next-generation approach to customer loyalty and view it in 3D:

- **Loyalty as a strategy:** Make strategic decisions to allocate resources to earn customer loyalty.
- **Loyalty as an outcome of daily decisions:** Earn customer loyalty through consistent actions across the major decision areas of price, promotion, assortment, space, marketing, and store operations.
- **Loyalty as a program:** Take a broader view of loyalty programs and ensure they have a differentiated and compelling value proposition while attaching unique customer IDs to as many transactions as possible.

Deploy your 3D loyalty strategy to reposition your value proposition. Along with innovations in assortments, prices, and technologies, loyalty is critical to taking market share back from restaurants and other grocery retailers as millennials increasingly shape demand.

The size of the prize is significant

Business Strategy

- Identify customer-driven growth opportunities
- Allocate resources to attractive customer, category and store opportunities

3D Loyalty

Program Tactics

- Early, frequent, relevant rewards
- Timely in-context communications
- Personalized offers

Daily Decisions

- Shopper-driven price/promotion decisions
- Shopper-driven assortment/space decisions
- Shopper-centric marketing decisions

Methodology

The data presented in this InfoBrief comes from several of IDC's global, web-based surveys, including:

- An IDC survey of 3,002 U.S. shoppers focused on consumer shopping behavior and the drivers for consumer preferences regarding loyalty programs. Conducted in December 2017.
- An IDC survey of 201 food retailers in the U.S. focused on decision makers who have insight into shopper marketing, loyalty, merchandising, marketing, or private label management. Conducted in December 2017.