

Consumers Still In Distress

More Than 50% of World Population Still Worse off Than in 2007

Now 7 years into the dramatic “Great Contraction”, **over 40% of consumers still face lower purchasing power than a decade ago** and a lifetime condition worse than the previous generation. This means what started as a few temporary changes to our lifestyles are now the new habits for many of us. As most people recognize there are three segments where these new lifestyles are dramatically different than any time in the past.

First, the 20+, newer shoppers entering the workforce today – **these kids have the lowest overall real earnings and purchasing power potential than any generation before it.** Even those with relatively high income, are often strapped with enormous college loans and find marrying very early the only pathway to home ownership. As they enter the highest consuming periods of their lives (ages 30 to 55) this group consistently demonstrates its interest in “everything IKEA” and “value with a conscious.”

Secondly **the under and unemployed that are an enormous 15% of the population** has been in this state since the crisis began. Especially those over 55 have long ago given up any hope of a secure position with a large company as their jobs were restructured or exported. These shoppers are increasingly single, have more time than money – and are deeply focused on survival shopping for opening price point merchandise.

Finally and perhaps deservedly, the boomers – those 60+ million consumers between ages 55 and 70 that were **completely unprepared for the crisis and their retirement that followed.** Largely living on “the dole” these people can be found in large campgrounds, listening to Jimmy Hendrix and reminiscing about days gone by. These people don’t own homes – are interested in easy to assemble and move furniture, very portable lifestyles.

These three very powerful segments have changed not just their lives but the overall food retailing landscape. Their habits are now entirely different from just 6 years ago when the crisis began. For example these segments:

Always comp shop and check on hand inventories to see if retailers are in stock on key items before they go to the store.

Always use their mobile handset to see if anyone is selling a used version of the new product they are considering at retail.

Pre-order about 50% of the food they pick up from supermarkets and other retailers using their handsets.

Use store drive—through 80% more than all other shoppers to reduce the temptation to buy more.

Are twice as likely as all other shoppers to buy closer to consumption – and therefore are much higher frequency shoppers.

Are three times as likely to buy a readymade meal for immediate consumption (assuming it is no more than 10% more than the cost of preparing a meal at home).

Use Aldi, 99 Cent or other opening price point store for their core consumables and then use a mainline supermarket for any fill in.

Are twice as likely to buy private label brands from leading retailers who have cleverly innovated their products to mimic the major brands while retailing at up to a 20% savings over the same brands.

Buy 40% of the branded goods only when on sale.

Spend over 80% of their healthcare services at a retailer owned medical clinic.

Do 100% of their benefits and financial banking at one of the big retailer owned banks. (They long ago lost trust in Bank of America and others)

It’s easy to see how these very large scalable population segments are redefining the retail landscape – big hypermarkets, club stores and premium specialty stores now find themselves marketing to a much smaller population base. It’s also easy to see how Aldi, Trader Joes, Winco, HEB and the Value Discounters continue to gain enormous share in the market serving these emerging shopper segments.

Study Shows 40% of In-Store Purchases Now Managed Through Mobile Phones

Home delivery and in-store pickup are the two most rapidly growing shopping transaction types according to a new study by RetailNet Group. According to the study’s authors, more shoppers are **using their mobile phones to purchase items** for in-store pick up at their convenience or for free next-day home delivery via services like Amazon Fresh or Alice.com. As a consequence, **traffic and shopper congestion at many retail locations has decreased significantly**, but basket and ticket purchases have sky rocketed.

According to the study’s authors, shoppers are going into stores less frequently but do remain more loyal to their preferred retailers. “We believe this is due to the fact that shoppers can pre-order their items hours ahead of time and store operations can ensure the items are in-stock and available for the shopper, minimizing out of stocks and increasing satisfaction”.

Some retailers have reported big drops in sales, saying their front-end and impulse merchandising is not sufficient to attract a new generation of shoppers who now consider the shopping experience much more transactional than experiential.

John Thomas, a store manager at a busy Whole Foods in Chicago said “It has **become a matter of winning on a 3 x 3 inch screen... not on 60,000 square feet store,**

Nielsen to Shut Down Insights and Analytics Division 2 Years After Merger With IRI

Just two years after its merger with IRI to seek scale and relevance to compete with dunnhumby and retailer insights and analytics systems, Nielsen has decided to shut down its Insights and Analytics division and focus just on trade media and its traditional base of media metrics.

A spokeswoman from Nielsen was surprisingly frank, stating that the relevance of third party insights and analytics business models like its own could not compete with models like dunnhumby’s, the retailers’ own systems and portals and the wide range of lower-cost entrepreneurial firms who have inserted themselves between retailers and smaller suppliers, providing that class of suppliers with high caliber services at substantially lower costs. Retailers’ panel members now number into the millions, yielding far more accurate data attributable to specific shoppers.

Retailer Consolidation Continues

Walmart now 30% of all Retail Sales in North and Latin America

In less than twenty years Walmart has grown from a US centric discount department store into the market share leader in markets that represent over 25% of the world's addressable population. In particular its spectacular investments in Latin America, India, China and Japan has allowed it to grow its share of these markets in less than a decade. It largely attributes its success to:

1. **Intense focus on consumer value**
2. **Its market development model** – especially its intense drive to accelerate its local capabilities towards “level 5” wherever it made sense
3. **Internal brand development and deployment** (Private Label Brands total over US\$100Billion in the USA alone and its 5 beverage brands now total over US\$15Billion combined with shares over 25% of category sales.)
4. Its store **prototype portfolio** (most markets have over 20 store types – from urban to rural, from large scale to express)
5. Its **“site and store” model** (providing consumers multiple options to order, pick, check out and pick up or schedule delivery)
6. Its **enormous cash flow** and low cost of capital it exported from its US business to its new developing markets
7. **Technology and transformational business models** – esp. those that allowed mobile check out thereby reducing and in some cases eliminating the front end in all but 5 of its store types
8. **Reputation and trip marketing** focus – paying attention to its 1st moment of truth 1st.

Lee Scott reflects back on this incredible journey with a special pride “we have a long way to go – retail remains one of the few industries in the world where the “Big 3” do not yet collectively control 60% of their respective markets. Our associates are committed to double our share everywhere we compete in over the next 10 years”.

Best Buy, Walmart Attribute Growth to Category Entries & Exits

Auto Segment now 8% of Best Buy's Business

At the Goldman Sachs Global Retailing Conference last month, Best Buy and Walmart both attributed their continued growth in recent years to their strategic category entry and exit strategies and disciplined approach to managing their categories.

After trialing and exiting a number of pilots (e.g. high-tech bars targeting 21-35 year old men and health and wellness stores focused on women), Best Buy's deep shopper and market insights led it launch an auto detailing business. “Fewer people were buying new cars,” said Barry Judge, Best Buy's CEO, “and our shopper was spending more on enhancing his car's performance and styling. It was a perfect play given the category's growth and our authority with our shopper.”

Walmart, whose 7 “business units” (Health & Wellness, Grocery, Financial Services, Home, Apparel, Electronics, and Pet) have each grown in the high single digits, cited its total commitment to winning in some areas and being willing to intelligently lose sales in others.

“We are constantly reevaluating market trends and our core shoppers' attitudes, wants, and needs. Where we've chosen to win, we dominate—in assortment, in the impact and continuity of our marketing efforts, in the store experience, and in our price leadership” said a Walmart executive.

Walmart First Retailer to Invest \$1 Billion Globally to “Win Search”

Google Chief Executive Mark Zuckerberg praised Walmart for its role in the search leader's continued record-setting growth.

“Walmart realized years ago that shopping decisions in many categories were increasingly influenced by out-of-store research and search - not just in-store - especially in low-frequency, high-engagement categories like consumer electronics. Winning search & research became a critical part of the retailer's strategy and selling motion in late 2009, and the retailer's pilot results led it to steadily increase its investments over the last 5 years.

As the need to win search became obvious with the advent of internet access and mobile internet usage, Walmart remained ahead of the curve over the last five years and invested over \$1 billion dollars last year specifically to win search.

“We knew how important search would become for the categories we wanted to win in, for example, consumer electronics, and so we made a strategic decision to invest heavily, and it is paying off” said a Walmart executive.



Data Privacy Lawsuit Settled by Supreme Court

A long running and controversial lawsuit surrounding retailers' data collection and warehousing practices was settled this month, in favor of the retailers.

Many of the controversial technologies cited in the lawsuit were not new, like license plate and face recognition, mobile signal interception, and automated video analysis.

But the rapidly declining costs of these technologies—in addition to strong improvements in accuracy—has led to much wider use of them over the last 5 years. Privacy advocates and others argued that having access to such detailed data about individuals' purchases, media consumption, location, sentiments and opinions, and more increased the likelihood of abuse.

In announcing their decision, Supreme Court justices argued that new classes of insight and information have historically been greeted with fear, doubt, and uncertainty—but that their usefulness to business, the social sciences, and the government far outweighed the risks.



Mobile path tracking
Store affinity analysis



Smart shelving
Product inspection rates,
OOS



Shopper assistance and
RFID cart tracking



Traffic analysis
Conversion rates, peak hours,
Display effectiveness, etc



Automated video analysis
Wayfinding & pathing patterns,
Shopping speed, conversion rates

Retailers' Proprietary Shopper Insights Now a \$1B Business

What began as an effort to refocus strategy around shopper management as opposed to category management has also turned into a lucrative revenue stream for many retailers. Collectively, retailers' revenues from the sale of licenses to their proprietary shopper data and insights exceed \$1B according to RetailNet Group, a leading advisory firm.

Nearly half of the top 25 US retailers now offer some form of proprietary shopper insights, from detailed sales data (sales by SKU by shopper segment by store cluster, for example) to more qualitative insights gleaned from retailers' privately managed communities. Of the top 25 leading retailers, all but 6 actively manage annual research studies sponsored by their leading vendors.

CIES Reports 1 of Every 3 New Stores is a “Small, High Frequency Box”

CIES’s recent global market and store development report shows five very clear trends:

- Total chain **retail sales have grown twice as fast as the store base**
- The **large format stores have experienced the greatest slowdown** while receiving the highest level of overall capex to re-generate the existing installed base. Only China, Brazil, Japan, India and some smaller developing markets experienced any real growth in larger store types
- The amount of versioning in each retail channel has **created at least ten major new scalable store types** – most of which are smaller boxes.
- The rapid expansion of the **discount store types has been a source of major store growth** – esp. in the small and mid-scale boxes targeted to food and Opening Price Points (OPP)
- The expansion of the convenience store sector in the large developing markets and the re-structuring of the convenience store industry in developed markets (to an even fresher assortment) netted **huge growth in smaller, high frequency stores.**

Joe Retayler, the CIES lead analyst responsible for its report, added that “ So many of the developed markets were already over-stored pre-crisis and yet the installed base hasn’t really shrunk. Instead we have retailers such as Costco, Walmart, Metro and others investing enormous amounts to

- **Re-locate, expand, re-model and often re-position** many of their existing boxes.
- **In-fill their markets** with many versions of their smaller boxes – esp. the opening price point and new convenience (express) store types. (Tesco (Fresh & Easy) Walmart (Marketside), Safeway (The Market by Vons), Giant Eagle (GetGo), etc.)

Jim Holbrook, well known futurist, added “ the retail landscape today in most level 3 or higher markets is infilling rapidly with discounters (e.g. Aldi, Dollar General, Lidl) , small box specialists (Best Buy, Carphone Warehouse) and these distinctive express stores (that largely drive traditional convenience operators out) Globally these three sectors have grown to over 500,000 chain operated stores. Traditional operators like 7 Eleven and the integrated oil companies have been exiting all corporate owned stores in favor of larger franchise networks in the hope that they can compete.

Perry Caicco, a CIBC analyst, is much more cautious about small store development. His analysis highlights the consistently higher returns one can earn in larger formats without the very real risks of small boxes – until the day a market saturates.

Retailer Shopper Insight Model Puts Retailers in Front of Shopper and Consumer trends

Imagine 50 million people each week telling you their likes and dis-likes – and a computer network powerful enough to listen, respond and report back to your marketing research dashboard about who is in your stores (and not), what they are buying or not (and why), what advertising is working today and with whom. This is the reality today at Costco, Tesco and Carrefour – three of the world’s largest food retailers.

This dream started just 5 years ago when Keith Anderson – a “Transformational Capabilities” analyst at the Retail-Net Group explained his vision to bundle disparate mobile, computing, data mining and other applications together to create the world’s first true “shopper insight portal.” While this early version was able to accurately attribute up to 70% of all transaction data to a particular shopper, it took over 5 years for the capability to expand to allow shoppers to engage in 2-way dialogue and feedback loop and for the mining tools to be able to attribute both the quantitative and qualitative features now present in today’s systems.

High level executives from these and other leading retailers have explained that the investment in these models has paid off in many ways – especially because they now tell their suppliers what is going on – and what the shopper is interested in – not the reverse.

Redemption Rates for Targeted Mobile Coupons Continues to Grow

Shoppers like a deal – especially those that are targeted to their personal interests. Sainsbury reports its shoppers have signed up for and receive over 100M unique offers each week with over 50% redemption rates.

John E Hood, CEO said “Over 50% of our transactions today including food items are managed by a mobile device – either before or during the shopping trip. We find our shoppers like our targeted coupons as they build their orders, as they arrive in the store and even when we find them price checking via Amazon in our stores. Everyone wants a better deal. Our branded manufacturers, while a bit slow to understand the power of our targeting capabilities now support over 60% of the price discounts we deliver. As you know it’s not about the technology today – it’s about engagement and trust – it’s essential that consumers see us as their quality and value agent to lead an active and healthy lifestyle.”

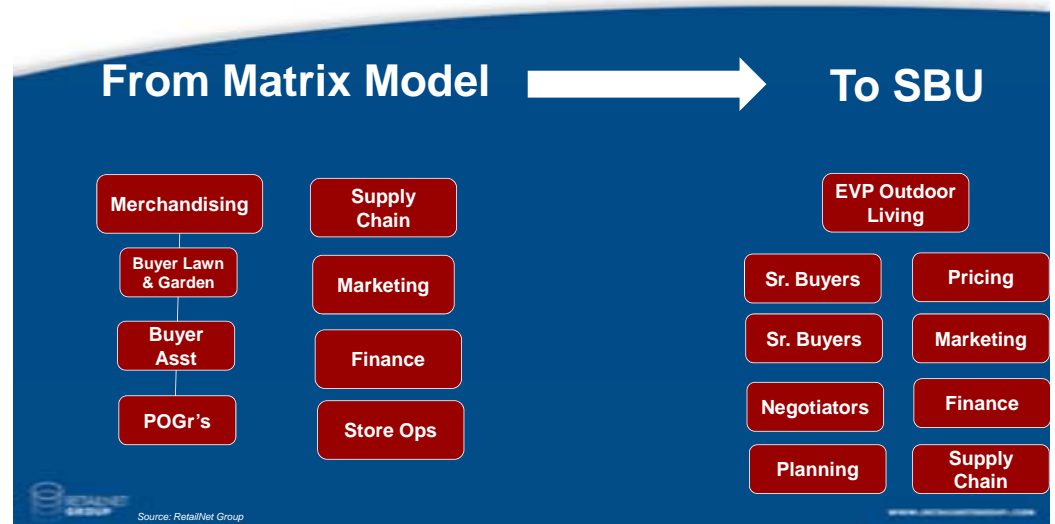
Charlie Bagel added “It was a game-changing move eight years ago when we partnered with Fizzback, Cellfire and the large-scale system integrators to leverage our 1st generation Nectar network (and databases) to really engage our shoppers. It was so important to our ability to hold shoppers – especially as Amazon entered our primary markets with its now famous food and non-food order management and delivery model.”

Tesco Integrates More Deeply With its Largest External Brand Owners to Automate More Planning, Supply Chain and Merchandising Processes

Speed and accuracy – goals for nearly every serious business – are Tesco’s relentless pursuit to both quickly integrate every business it acquires and its goal when working with external brand suppliers. Since it re-organized around Strategic Business Units (SBU’s) 3 years ago, Tesco has brought an intense, multi-functional focus to eliminating all duplicate efforts, leveraging its suppliers’ labor and bringing tight discipline and standards to its business globally.

“RNG counseled anyone who would listen that any retailers’ move to implement “Level 5” capabilities with an SBU management model would drive a rapid narrowing of and much deeper integration with external brands,” said President and CEO of RNG, Dan O’Connor. “Tesco simply decided to push its capabilities one click ahead of its average competitor in each market – thereby outpacing the competitors’ ability to get to Level 5 first and shift what was a number of collaborative to internally managed decisions – faster and better”.

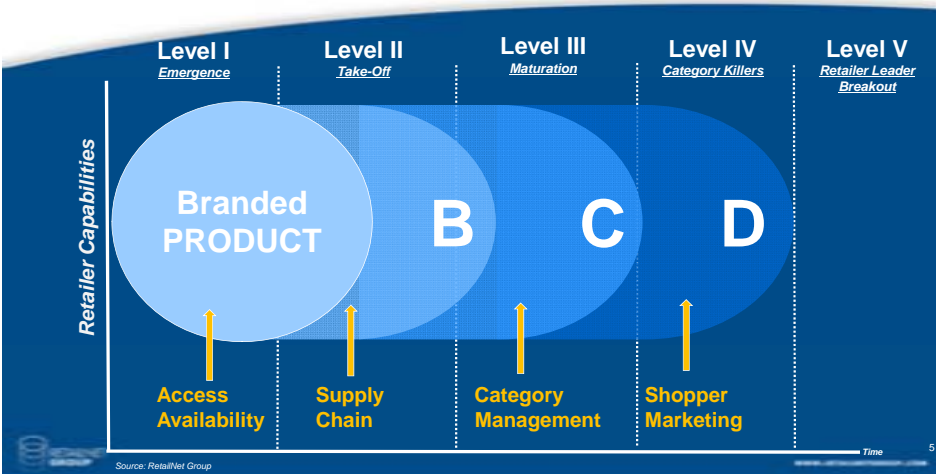
Retail Elite Moving to Strategic Business Unit (SBU’s)



The only survival strategy for the leading brands was to rationalize their offer – not necessarily which brands or products they offered, but the value-added services. Five years ago few would have imagined that the semi-automated category management, shopper marketing and other services CPGs used to provide to retailers are now largely automated and totally controlled within these retailers’ business processes and systems.

Aaron Chio – RNG’s EVP Latin America added “ We observed how carefully Tesco modularized its supply and demand chain, organization, information & technology to fit the development stage of each of its markets. It was among the first to recognize during the crisis that there was an opportunity to reach a new capability level that only it and a few other leaders could reach” But it required a bold investment and management commitment not to fall back to the traditional more collaborative relationships generally prevalent in level 1 to 4 markets. This single observation set the stage for profound new approaches in its major markets.

Branded Suppliers Add to



Many manufacturers are still wondering where this is going. “When you lose your relationship with your largest customer because of organizational & structural changes, many of your brands start getting replaced with private label, and your ability to add value is narrowed so greatly, it is hard to justify all the resources we have against these level 5 customers like Tesco, said Charlie Johnson, a Global Tesco Team Leader for a major branded manufacturer.

Retailer Marketing Capabilities Making Shoppers Lives Easier

Today’s retail leaders have a pretty good sense of what you bought yesterday, where and for how much, what you had for breakfast this morning, when your pantry needs to be replenished and what causes and entertainment you are most interested in.

Thanks to investments by companies such as Amazon, EBay, Best Buy, Walmart, Costco and others, your life is hugely simplified. What enables this? A series of databases that contain information about you, what you buy and where, as well as deep histories of all the feedback and commentary you have shared with these retailers over the last several years. While big brother may be watching you know that:

- These companies reputations’ are carefully shaped - especially their efforts around their priority corporate social responsibilities
- Trip Marketing is a specialty for most – they know how to use the data to get you excited about making a trip to their stores (even post-newspapers)
- The in-store communication is awesome – your ability to click to chat with a nutritionist or shopping coach simplifies product choice (even if they always steer us to their favorite store brands!)

ALDI Now Number 3 Global Retailer

Aldi, reintegrated following the death of its founders, and reenergized by the recent merger with Oxxo and acquisition and conversion of Seven & I to its own banner, has become the dominant high frequency discount retailer in the world with top 3 share positions in Europe, North America, Japan and Latin America, this despite the smaller format that the retailer prefers. The merger with FEMSA’s Oxxo division has been seamless and has put Aldi now on par with Walmart for leadership in Latin America.

Not only does ALDI have the largest store base in the world it also owns some of the largest brands. In a recent interview with Aldi’s new CEO – Steve Burd (formerly with Safeway Stores – see related story below) attributes its success with its labels to:

Quality – we’ve been winning quality, innovation, packaging and merchandising awards for decades. It really sets us apart.



Partnership – we have a “grow with” strategy with our key external brands – this allows us to stay aware of the industry innovation in each category where we compete.

Scale – we have the ability to scale an SKU at a level that most retailers cannot – so we not only work the mainline SKU’s in any category but our scale enables us to bring economies of scale to the flanker and specialty items.

Vendors – our vendors bring us their best ideas 1st – packaging, ingredients, formulation – across the map.

Exclusivity – our products are only available in our stores.

Price gaps – we can save the shopper 20-25% over the products they buy in conventional supermarkets.