

KANTAR RETAIL



2017+ Predictions: Questions in Action

PREDICTIONS **2017**

"It is better to know some of the questions than all of the answers."

James Thurber

Every year, Kantar Retail makes available to our subscribers projections across a variety of geographies, retailers, and channels in slide deck deliverables aimed at [global](#), [U.S.](#), and [European](#) audiences. Though the content and examples we use in each piece are different, the overarching themes remain remarkably consistent and show an environment from 2017-2020 characterized by enormous change, challenge, and opportunity.

Thematically, a series of areas serves not only as a guide to the content, but also as a significant call to action for manufacturers and retailers preparing for 2017 and beyond. When we look at these areas, we find it helpful to frame them into the most significant questions retailers and suppliers face as they navigate this new world. These five questions (and the frameworks that answer them) are outlined here, and should be treated both as a strategic guide and as a reader's guide to the outstanding and detailed outlooks put together by the Kantar Retail team.

WHERE Will People Buy?

Our 2017 predictions are rooted unsurprisingly in the change in retail's global footprint. The single most important prediction we have is at a channel level: By 2019, nonstore (online) retail will be the single largest retail channel in the world in total sales. Between 2016 and 2021, \$1 out of every \$3 of global retail growth will come from nonstore retail. Supermarkets remain another resilient growth segment. Combined, online

and supermarkets will account for 40% of the world's retail growth. In terms of overall retail market share, hypermarkets will lose nearly 200 basis points of global retail market share by 2021.

Discounters will continue to rise, posting almost as much dollar growth as supermarkets. Globally, the brick-and-mortar limited-assortment formats (discounter and cash & carry) will be larger than the hypermarket channel by 2021.

Most of the top 10 retailers in the world are undergoing significant format upgrades and/or transformation programs. In particular, Aldi, Lidl, and Seven & I are all retrofitting stores and designing new prototypes. Small stores are absorbing a disproportionate amount of the retail ecosystem's new capital.

WHERE: Calls to Action

- FMCG manufacturers' new normal will be the "price paradox." Customers and channels with a wider **variety** of pricing/margin strategies will drive growth, but the digital world's transparency will create more **consistent** price points across price-comped SKUs. With fewer levers to pull on item pricing, channel strategy will require a fusion of strategy and analytics to achieve the retailer's economic objectives. Category management's future role is to construct positive economic outcomes given the constraints of these highly transparent comparable SKUs.
- Small boxes require small assortments and a thoughtful assortment strategy. Making small shelves productive will be critical to success.
- Format prototyping and testing will be a critical competency. Retailers and suppliers will need

to rapidly test and model a wide variety of assortments with economic accuracy.

- eCommerce strategy will require more investment, not only in customer teams, but also in the C-suite and on the board agenda. Meeting the demands of these channels requires transformational integration between sales and marketing.

WHAT Will People Buy?

Our macroeconomic projections for the upcoming year focus on three key themes that map what shoppers will be buying:

- **Risk as critical as the growth rate:** Certain economies (the U.S., India, and Europe) seem less risky, while Russia and the Middle East recover in line with oil prices, China slows, and other markets — Turkey, Brazil, Chile, Mexico, and South Africa — face significant risk.
- **Services versus goods:** A simple, powerful frame for this theme is Kantar Worldpanel's data highlighting how in 2012, the global FMCG growth rate of 6% was more than 2.5 times the global economic growth rate of 2.3%. By 2016, that relationship was perfectly inverted. Global economic growth of 3.1% was more than 2.5 times global FMCG growth of 1.2%. Retailers with a strong service component to their offer either in what they sell or to whom they sell — for example, small businesses that provide services — will markedly outgrow the market.

- **Trade policy shifts:** At least two of the world's five largest economies are going through structural and political transitions that could potentially result in more nationalistic trade policies. We expect the structural anti-globalization tension to continue; this threat of protectionism will loom over the global retail landscape in 2017.

In the embedded markets, the Internet of Things and (particularly) voice recognition technology will become critical supplier/retailer skill sets. In 2017, watch how investments that Amazon and Alibaba make in emerging tech markets like India may allow these markets to skip a generation of retail evolution if technology can solve a problem better than brick-and-mortar can for the specific geography.

WHAT: Calls to Action

- Brands need to get better at thinking of their proposition as an experience that blends product and service — the more personalized, the stronger the experience.
- Global supply chains need to be insulated against a more protectionist world through smarter and more flexible planning.
- Identifying specific category growth drivers is the only way to outgrow FMCG's shrinking share of the global growth pie. Smart insights and analytics will be essential to reframing category-level growth stories.

WHEN Will Shoppers Decide?

The digital world is propelling shopper marketing to manage a "perpetual moment of truth." Our prediction is that the technology underpinning this perpetual moment of truth will become far more important in 2017. Technology will evolve in markets along a continuum. In some markets, technology is already embedded in the retail value chain; in others, its role is still emerging.

WHEN: Calls to Action

- Suppliers and retailers should dedicate R&D-style resources to voice-activated Internet shopping and the Internet of Things.
- In emerging tech markets, suppliers should overinvest in mobile capabilities and in understanding the relationship among shopping, payment, content, and delivery. Different and unique combinations of these will change the way marketers and sales teams think about brand reach, activation, and conversion.
- Globally, this technology will empower a more precise connection to shoppers through personal interaction and data granularity. Harnessing that granularity into insight will be necessary to achieve that connection.

HOW Will Shoppers Be Influenced?

2017 will be famous for the rise of social selling; those close to the Chinese market will see this as more of a retrospective than as a prediction. Still, we predict that retailers and suppliers will export learnings on social selling from Chinese players like WeChat — 31% of WeChat users made a purchase on that platform in 2016. Facebook and Twitter had an interesting 2016, and both (for different reasons) will need to bring their ecosystems closer to purchase. Instagram and Snapchat already have some of the most successful beauty entrepreneurs in the U.S. who use them as a marketing platform for direct-to-consumer (D2C) selling. As more suppliers enter the D2C space, these platforms will become important to those initiatives as well.

HOW: Calls to Action

- Social marketing and activation will need to come together more closely than ever in 2017. Too many companies still outsource "social" to an agency at arm's length from core commercial and brand-building processes — never mind a sales team. "Socialivation" (blending social and commerce) will be an area of investment.
- The granular, digital ecosystem will overwhelm attempts to market manually. Algorithms will take the world into an era of "prescriptive conversion," where conversion moments are activated like programmatic media spending.

HOW MUCH Will Shoppers Pay, and How Much (If Anything) Will Anyone Profit From It?

It isn't just small shelves that will require productivity analysis. Big-box stores will need to reconfigure their assortments to combine productivity and profit. Competing with different economic models will put intense pressure on promotional and pricing strategy, meaning that productivity analysis will need to get markedly more granular. Shelf productivity, rather than growth, will be the currency by which suppliers influence the retailer of tomorrow. Most retailers and suppliers will need to significantly transform their analytic capability to understand how to turn the shelf into a cash flow engine.

Shelf merchandising will play an increasingly important role in driving shelf productivity through consumer/ shopper communication, influencing shoppers to buy the SKUs that make the shelf productive. The shelf itself and the packages on it will play a more critical role in communicating newness, difference, and excitement.

HOW MUCH: Calls to Action

- Shelving and packaging require detailed insight into the shopper's purchase journey to understand the role the last mile plays in shopper conversion.
- Best-in-class assortment analytics tied to overarching category strategy will be foundational to driving retailer profitability.
- Promotional analytics will need to be integrated into category strategy more significantly. Simply lowering prices to move units will be unacceptable in a world of shelf productivity optimization.

These questions — and the calls to action that answer them — are a good frame for the detailed projections we have compiled on the markets, retailers, and channels that matter most to our clients. Enjoy the read, and happy new year.

Sincerely,



Bryan Gildenberg
Chief Knowledge Officer



The Kantar Retail Narrative

We Are

The Retail and Shopper Specialists

Our Purpose

We help our clients sell more – effectively and profitably

Our Belief and Philosophy

We connect a world-class set of retail and shopper assets with pragmatic, solution-oriented people to grow client businesses

Our Brand Story

Every business challenge requires a unique solution.

We bring together a collection of retail and shopper assets – insights, tools, analytics, and experienced consultants who think pragmatically while building and delivering integrated solutions. Our passion is using the right combination of these assets to grow your business.

Our teams create real-world solutions to deliver faster growth, and we plug in seamlessly as part of your extended team. We connect these solutions to your core work, embedding them so your organization benefits systemically and continuously.

These solutions are aimed at your critical business decisions – how to best drive future growth, where to play, how to win, and how to optimally allocate resources. In turn, our solutions help you win the critical decisions made by shoppers and buyers along their purchase journey. Our specialized knowledge and expertise can be targeted toward specific business issues, while our integrated solutions transform businesses and generate breakthrough performance improvement.

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