Planning Pillars in the Era of Scrutiny

BREAKTHROUGH INSIGHTS **FIRST HALF 2017**

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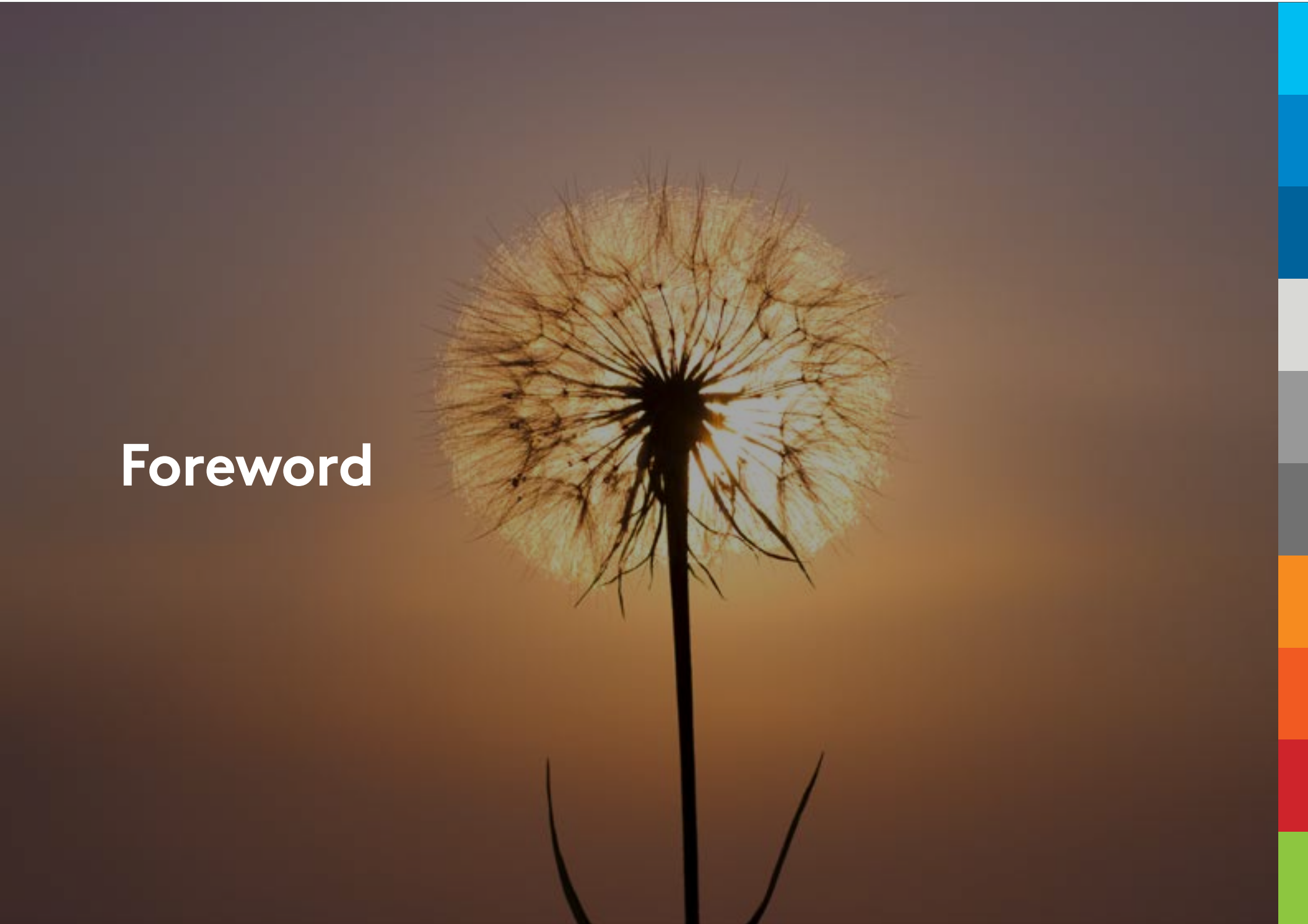
Foreword



Foreword

With the U.S. election well past us and various electorates in Europe settling scores, the landscape still seems far from stable. Though consumer confidence levels have risen appreciably, Kantar Retail's ShopperScape® surveys continue to indicate that shopping intent has not followed suit.

The drivers of unease remain in place around the globe:

- An uncertain policy and regulatory environment, especially in the U.S.
- Signs of re-inflation in key commodity markets
- Rising populist, anti-establishment sentiment
- Continued fragmentation of shoppers along demographic and attitudinal lines

These and other dynamics have kept macro factors at the forefront of the industry agenda. At the same time, retailer and manufacturer "plates" are full as shoppers seem destined to take control of their own demand chains. Consider these illustrative examples from the U.S.:

- More households (37%) are members of Amazon Prime than shopped all but one retailer (Walmart) in Q4 2016.
- Half of all net-new brick-and-mortar doors that will open through 2021 will be dollar stores/discounters.
- While it accounted for just over 10% of retail sales in 2016, online alone will drive one-third of all sales growth through 2021.

Growth has seemed more elusive than in the past, particularly for larger suppliers and retailers tooled for scale-driven commerce concentrated in large formats. Indeed, much of the growth is coming from smaller sources: brands, media, shopper niches, and format sizes (even formats as small as a mobile phone) with a more specialized appeal. More targeted trips, need states, and real estate are winning share of wallet from more establishment formats and media. Indeed, the latter are finding inspiration (and acquisition targets) from smaller, innovative brands and formats.

Kantar Retail has deemed this the Era of Scrutiny, as capital and promotional spending comes under the proverbial microscope to wring ROI from investments. Many of our clients — retailers and manufacturers alike — are adjusting to the intense scrutiny of costs associated with stores/sites, price investments, and trade spending.

At the same time, we can take solace in the fact that the fundamentals of commerce — product, price, promotion, and place — remain the same. Although we certainly have to take new approaches to leverage the 4 P's in this landscape, the pillars themselves are familiar as we retool our go-to-market strategies. We address each of these new 4 P's in this edition of Breakthrough Insights.

Product (What)

As online chips away at traditional traffic-driving categories, square footage dedicated to any number of categories is under intense scrutiny. Moreover, the growth of smaller formats and even larger formats that limit choice by design has made role sorting a priority when it comes to SKU and category deployment. The growing sophistication of private label innovation and improvements in online merchandising are raising the stakes

even further. Indeed, when it comes to online, search management is becoming as important as shelf management in many categories. A couple of articles in this edition look through this product lens. Kate Senzamici's well-researched piece distinguishes health from wellness and further explores the "tailoring" and "transforming" quadrants of Kantar Retail's health and wellness framework. Importantly, she describes how the products aligned to health and wellness are just as likely to be services. In a second article, Diana Sheehan touches on the mainstreaming of bulk products as an illustrative example of a merchandising trend that also enables retailer branding.

Price (How Much)

With diminishing deflationary trends expected across a number of categories, price scrutiny is likely to intensify. Lidl's U.S. launch will surely drive the price conversation at many retailers. However, our view is that this SKU-level pricing analysis will increasingly give way to a more dynamic, transaction approach that focuses on total basket pricing, especially online. The core questions will center on incrementality: What is the incremental role, dynamically, that a product plays in driving transaction size? How does that role differ by shopper target? By retailer? How does it influence the price investment conversation? Of course, the best place to start any pricing conversation is with the shopper, and that's exactly what Doug Hermanson does in his piece on shoppers' budgets, reminding us of the need to look holistically at some key share-of-wallet variables. Laura Kennedy also provides some primary data on pricing in her article on Walmart's food private labels, an area of increasing importance to that retailer.

Promotion (How)

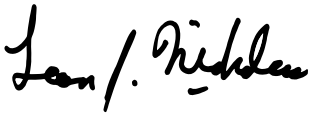
The considerable scrutiny around trade spending is, alas, justified in an era when more and more promotion dollars can be tied to conversion, especially online. Online or offline, brands are increasingly feeling the need to "take sides" in the political/cultural battles underway, with some choosing a "do no harm" approach that minimally seeks to reward loyalists before attempting to draw in new shoppers. Bryan Gildenberg wades into these waters with an engaging article on the post-election U.S., particularly the implications for branding. Malcolm Pinkerton looks at the evolving role of promotion in the commerce and branding ecosystem that is Alibaba, a commercial behemoth that we'll be discussing more frequently in the future.

Place (Where)

Just as the scrutiny of suppliers' product portfolios is underway, so is the scrutiny of suppliers' retailer portfolios. Online players are gaining scale, changing the role that brick-and-mortar outlets play in shoppers' outlet choice at the same time. The need for resegmenting "place" has never been greater, as brick-and-mortar outlets seek supplier partners who can drive differentiation — or at least enhance role clarity in the face of a shifting landscape. A major driver of that shift in 2017 will be Lidl's U.S. launch this year. Leveraging our global coverage of the retailer, Mike Paglia examines Lidl's anticipated U.S. shopper profile and suggests which competitors may be at risk. Over to online (which is, of course, not a physical place at all, but a place nonetheless), Robin Sherk provides a framework for considering Amazon's global expansion, outlining four stages of development that suppliers can align to. Finally, Vadim Khetsuriani's article on Metro Cash & Carry's increasing investment in wholesale operations is a great example of how retailers are shifting their business models to accommodate a new commercial reality.

The 4 P's are certainly in flux, leading us all to reconsider how we allocate our resources — people, portfolio, and spending — to drive growth as the landscape evolves. Toward that end, I hope you find this edition of Breakthrough Insights to be a thought-provoking catalyst for the evolution of your own go-to-market strategy.

Regards,



Leon Nicholas
Chief Insights Officer

Some (Politics-Free!) Thoughts on the U.S. Election and Its Implications for Brands/Retailers

Some (Politics-Free!) Thoughts on the U.S. Election and Its Implications for Brands/Retailers

By: Bryan Gildenberg

I volunteered for the somewhat daunting task of putting together a quick perspective on what we think Donald Trump's victory in the 2016 U.S. presidential election means for the specific ecosystem Kantar Retail cares about, which is helping our clients sell more effectively and profitably. Blessedly (I hope), this piece will be free of any evaluation of the philosophy or politics behind the outcome. Instead, I want to focus on the key short- and medium-term ramifications that we believe should be part of any company's planning assumptions. In some ways, view this piece as a companion to our analysis last summer on another highly charged and narrowly contested global issue — Brexit.

With that, our focus here will be on five areas:

1. The Macro Landscape

Unlike Brexit, the U.S. financial markets avoided the short-term shock Asian markets in particular experienced once the U.S. election results were known. None of that really matters. Markets are volatile, and short-term fluctuations drive headlines, not significance.

However, we would ask clients to keep a closer eye on the dollar exchange rate in the coming months. If the U.S. and President Trump pursue policies that constrain international trade, the dollar's value could decline, which, all else being equal, would drive some inflation into the U.S. economy (a phenomenon the U.K. saw last summer during the Brexit fallout). Of course, inflation is a double-edged sword. A little inflation might be good for U.S. retailers struggling to maintain top-line sales (particularly in store-based retail). However, a surge in inflation (particularly if it is sustained) would certainly cause more tense negotiations between suppliers and retailers and put real pressure on Have-Not shoppers who have seen their real incomes essentially stagnate in recent years.

2. The Have-Not Shopper

Kantar Retail subscribers will be deeply familiar with this phenomenon. For a number of years, we have been emphasizing U.S. income inequality as one of the biggest opportunities and challenges for brands and retailers. These shoppers roared for the world's attention on Nov. 8. White Americans without a college degree who represent approximately one-third of the U.S. electorate (remember, only 30% of the U.S. adult population has a four-year college degree) voted for Trump by a margin of nearly 40 percentage points.

We have been emphasizing U.S. income inequality as one of the biggest opportunities and challenges for brands and retailers.

Though obviously not all of these shoppers are Have Nots, the average earning power for a non-college-educated American is 80% of the median U.S. income, and at $53,000 a year, the median U.S. household income is lower than most people think. The purchasing power of this demographic has been leveraged for years by Walmart, and then most famously by the U.S. value discount channel. Dollar General and Family Dollar/Dollar Tree together will have 36,000 stores in the U.S. by 2018. The rural nature of those channels should not be overlooked, since it was largely rural voters who decided the election. Marketers that continue to treat the U.S. as a premium and urban/suburban market rather than as the deeply polarized one that it is will leave enormous opportunity on the table.

Also, keep in mind that if the Republicans enact their articulated programs to grow the economy, the result may be a dramatic loss in subsidies to the bottom of the Have-Not population.

3. Healthcare

From our perspective on Nov. 9, 2016, it seems likely that 2017 will see significant changes to or perhaps the complete abolition of the Affordable Care Act (ACA). Though obviously no one can figure out right now what that will look like or if/when it will take place, here are a few key factors to keep in mind as the healthcare system changes:

- **Consumers will still be responsible for a larger portion of their healthcare costs.** The dynamic of high-deductible healthcare plans will continue, a trend that predated the ACA's passage. Health and wellness brands and retailers will still have a huge opportunity to help consumers navigate this new world in everything from prevention (to avoid costs) to planning (to map costs) to engagement/education (to manage costs). In particular, watch for regulatory changes that allow healthcare companies to charge less or more based on relative levels of health, ideas like the ones that former CEO Steve Burd implemented during his tenure at Safeway. It would not be surprising if, by 2020, healthier consumers pay less for health insurance in the same way that safer drivers pay less for car insurance.
- **Any solution a Republican majority develops will be more market-driven than government-driven.** That means consumers will still need help navigating their healthcare choices. It also means that outcome-based payment models will continue to grow, creating enormous opportunity for retailers to play an active role in helping insurance companies manage outpatient care.
- **A significant number of lower-income consumers could return to the ranks of the uninsured.** Apart from the obvious issues, this will reduce prescription volume and traffic to drugstores — and a major opportunity for retailers and brands to communicate with low-income shoppers. These patients may return to a world in which they manage their chronic conditions with over-the-counter and natural remedies.

4. Immigration

Clearly, this area of the analysis is the least certain. Still, we'd encourage companies to think about a few things if they are forced to conduct a three- to five-year strategic planning exercise in this time of uncertainty. Think of these as scenarios or possibilities, with the "everything remains more or less the same" as a definite scenario.

- **Services:** Part of the unbelievable growth of the digital economy has come from services such as Uber that literally drive the adoption of digital tools to improve consumers' lives. Many of these services rely on a labor pool greatly enhanced by immigrants. It will be interesting to see how these services are overseen and policed and whether greater scrutiny causes the labor force for these services to become scarcer or to dry up. In combination with minimum wage laws being passed at the state and city level, you could see some strange dynamics taking place in local labor markets.
- **Professional talent:** The U.S. is already struggling in some key industries to maintain competitiveness due to a somewhat archaic, slow, and unpredictable process for providing visas for professionals to work here. Watch if legacy centers of excellence (Wall Street for finance, Hollywood for entertainment, Silicon Valley for tech, Boston for biotech) start to shift to non-U.S. locations.
- **Culture:** Mainstream brands may read the tea leaves and de-emphasize some of the inclusiveness many companies have been adding to their brand communication, since anti-immigration sentiments appeared to be a determining factor for many Trump voters. By a 2-to-1 margin, Trump won voters who thought immigration was the most important issue in this campaign.

Mainstream brands may read the tea leaves and de-emphasize some of the inclusiveness many companies have been adding to their brand communication.

5. Branding

Our final thoughts concern what Trump's success means for the nature of branding. Brands learned a ton from the Obama successes of 2008 and 2012, and will probably study Trump 2016 to understand the DNA of its success. With a debt of gratitude to my colleague Nigel Hollis from Kantar Millward Brown, here are a few key thoughts:

- **Trump identified points of cultural tension and crafted a message that resonated strongly with them.** The narrative leading up to the election suggested that the Democrats' highly sophisticated digital targeting strategy, which was key to Obama's 2008 and 2012 wins, would propel Hillary Clinton to victory. Clearly, the difference between the Clinton campaign and the successful Trump/Obama ones wasn't marketing technique, analytics, or sophistication, but message resonance.
- **Keep it simple.** Trump's opponents often candidly mocked him for oversimplifying problems and for his unsophisticated "Make America Great Again" slogan. His election is a reminder that attention spans are limited, and that packing maximum impact into minimal complexity is a key to success.
- **Market in the year you're in.** To quote my friend Gary Vaynerchuk, Trump relied on "earned media" wherever he could get it — social, digital, and conventional media channels. This exposure allowed him to reach the maximum number of people at minimal cost, which then left him free to campaign in large arenas with free admission as opposed to spending time at intimate $10,000-a-plate fundraisers. Those arena shows energized and inspired passionate advocates who then became his media mix on social platforms.
- **Watch for cultural optimism.** It seems possible that big brands will struggle in this world to find cultural resonance. The current polarized nature of cultural debate will cause more fear, perhaps, than the 2016 environment might have to connect with consumers in this way. This should prompt big brands that may be feeling more conservative to watch with vigilance for brands that seem to be forging a strong cultural connection.

Many of them may be small challengers or brands that seem to have a low likelihood of success. Yet even where much of the opportunity comes from the niches created by our fragmented world, fortune will always, always, always, always favor the brave — brands that are brave enough to lean in and form meaningful connections with their consumers. Be brave.

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Shoppers' Budgets Take Some Hits Early in the Year

Shoppers' Budgets Take Some Hits Early in the Year

By: Doug Hermanson

Several factors are conspiring to push shoppers against the ropes in early 2017. The combined effect of delayed tax refund checks, renewed gasoline inflation, and higher healthcare costs will cause consumer demand to stumble a bit in the first few months of the year, especially among low- to middle-income consumers. As the year progresses, job and income growth will help shoppers absorb most of these costs, leading to top-line growth in 2017 similar to 2016's average pace.

Delayed tax refund checks are the most temporary, but perhaps the most impactful, factor in the short term. Increased efforts to detect and prevent fraud will require the IRS to hold refunds until at least mid-February for some filers. According to IRS data, refunds totaled $13 billion from the start of the year through the first week of February, down from $59 billion during the same set of weeks in 2016. Delayed refunds will likely have an immediate effect on retailers. According to Kantar Retail ShopperScape® data from March 2016, about one-quarter of shoppers use tax refunds on everyday expenses.

Among the everyday expenses shoppers would look to pay for with their refunds is gasoline. Therefore, a 50-cent increase in gasoline prices since last year makes the delay even more inopportune for shoppers. Households sometimes contribute less to savings or spend less at restaurants to offset rising gasoline prices, factors that, to some degree, tend to dull the negative effect on core retail sales as gasoline prices rise. Without refunds to immediately recoup savings and pay down debt after the holiday, gasoline prices will likely hurt retail demand in January and February more than otherwise would be the case.

One area of rising costs that is not completely new to shoppers in 2017 is higher healthcare costs. This was the biggest concern for households on average in 2016 according to ShopperScape® data, nudging out potential election-related policy changes and a handful of other concerns tracked throughout the year.

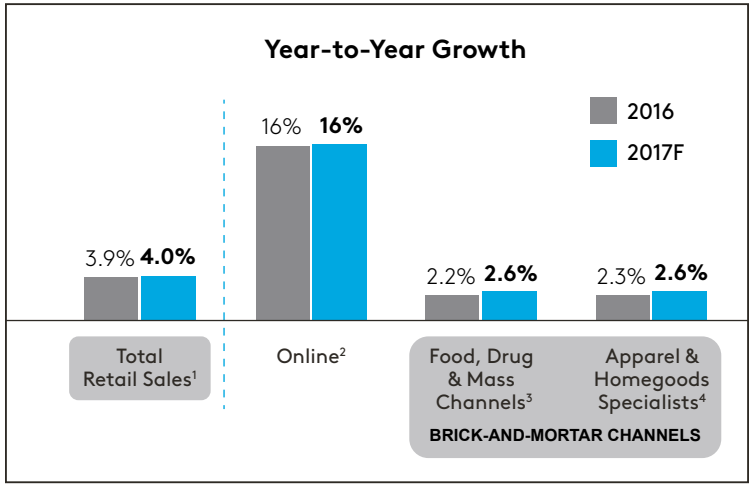
One area of rising costs that is not completely new to shoppers in 2017 is higher healthcare costs.

Despite a soft start to growth in the new year, retailers and suppliers should expect growth to pick up in the spring, assuming recent

job and wealth gains hold up. Policy details — for example, on tax rates — and the timing of their implementation are likely to remain in flux through at least the second quarter. Consistent spending plans among shoppers in November and December 2016 as tracked by ShopperScape® — rather than much more volatile measures of consumer confidence — suggest this uncertainty alone will not impact shoppers' spending.

Until politicians have a pen in hand, taxes, healthcare, and trade will likely remain a minor influence on spending relative to shoppers' current financial situation. As a result, Kantar Retail currently forecasts retail sales will increase 4% in 2017, similar to 2016's 3.9% growth *(Figure 1)*. Most suppliers and retailers should prepare for slightly slower demand growth (that is, inflation-adjusted growth) this year as the steep deflation of 2016 softens and income growth remains relatively moderate.

Figure 1. Retail Sales Forecast



[1] *Total retail sales excludes auto dealers, fuel, and food service channels; includes auto parts stores*

[2] *Online sales are estimated for the fourth quarter of 2016*

[3] *Includes drugstores, supermarkets, supercenters, discount department stores, warehouse clubs, and dollar stores*

[4] *Includes traditional department stores and specialty homegoods and softgoods channels*

Source: U.S. Department of Commerce, Kantar Retail analysis

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Exploring Health and Wellness via High-Interest Shopper Segments: Tailoring and Transforming

Exploring Health and Wellness via High-Interest Shopper Segments: Tailoring and Transforming

By: Kate Senzamici

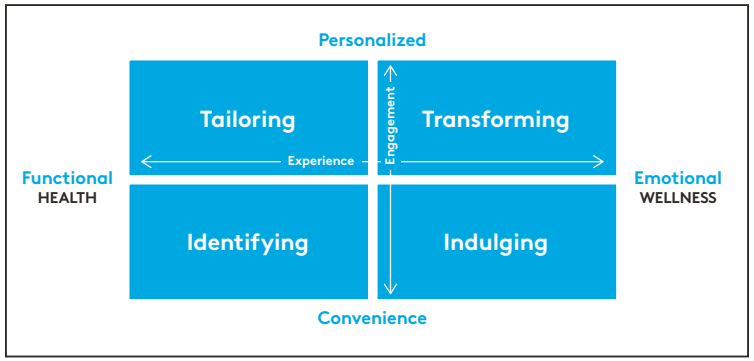
Health and wellness is more than a buzz term. Shoppers' growing desire to improve health and incorporate wellness into their lives is no longer just a trend — it is a long-term investment from which retailers and suppliers can benefit. The ubiquity that "health and wellness" has achieved in more recent years no doubt causes some confusion as to what it all really means and its impact on retail. One key thing to understand is that while "health" and "wellness" are two distinct concepts — encompassing different needs, attitudes, products, and trip missions —they are also interdependent.

We know from Kantar Retail ShopperScape® data that shoppers think of health in physical, functional terms — such as not getting sick, completing routine medical visits, and managing chronic conditions. Wellness is more abstract and emotional, associated with things like personal development, emotional well-being, or socializing. One common thread between the two is that shoppers are equally likely to view managing/avoiding stress as both a health concept and a wellness concept; stress impacts the physical and functional as well as the abstract and emotional. While health and wellness each are viewed through a different lens, one cannot exist without the other: Health impacts wellness and vice versa.

Understanding the Framework

This distinction between the two carries over into the retail health and wellness framework, which is split into four quadrants: tailoring, transforming, identifying, and indulging *(Figure 1)*. The framework positions health and wellness on a spectrum that spans functional and emotional, convenience and personalized, along the respective planes of experience and engagement.

Figure 1. Kantar Retail's Health and Wellness Trip Mission Framework



Source: Kantar Retail analysis

- **Tailoring** represents a functional and personalized approach to health. This quadrant is fully manifested in retail pharmacy as well as in any personalized health services offered in retail and beyond. Health insurance, urgent care, retailer health clinics, and telehealth are some examples of areas in which a tailoring approach can be used. It means serving shoppers' unique health needs in a way that necessitates building and maintaining positive personal connections.
- **Transforming** is about providing personalized emotional or aspirational solutions to help shoppers create space for wellness in their lives. It represents an approach to overall well-being beyond foundational health services: Transforming is about aligning with shoppers' lifestyles and, perhaps more importantly, their aspirations. Wearable fitness monitoring equipment, salon/spa services, holistic and osteopathic medicine, and athletic wear are all part of the transforming quadrant. Transforming

also involves paying special attention to transparency. Overall, this approach taps into shoppers' unique needs and values, and suggests comprehensive mind-body nourishment.

- **Identifying** is perhaps the most utilitarian quadrant. It encompasses a functional, convenient approach to health — think OTC. It is about quickly recognizing and fulfilling a health need, but identifying does not apply only to nonprescription medication. Food (fresh and natural, healthy snacking) and household needs ("free-from" products using less harmful ingredients) are also part of this functional and convenient approach. In this case, as with transforming, transparency is crucial.
- **Indulging** can be thought of as identifying's counterpart. It is more epicurean than utilitarian, represents an emotional and convenient approach to wellness, and is all about treating and rewarding oneself. Beauty is dominant here: Makeup and accessories are discretionary items that help shoppers feel good by looking good. Other areas, such as premium foods, candy, and gift items, prove indulgent as well — and provide opportunities for categories not traditionally thought of as "healthy" to create an overall health and wellness angle. An indulging approach may best cater to impulse purchases and thought-out occasions for which shoppers will treat themselves. Indulging is an example of how a wellness-oriented lifestyle is not all about restrictions. "Everything in moderation, including moderation" applies here.

This article focuses on the tailoring and transforming quadrants of this framework.

Health and Wellness Through a Shopper Lens

The majority of shoppers (90%) report taking some sort of measure to manage their overall health and wellness *(Figure 2)*. Diet and exercise, the basic foundation of a healthy lifestyle, represent the top approaches to health and wellness management, but shoppers also are looking for balance and simplicity: 44% are managing health and wellness by cooking more at home, and 36% are doing so by carving out more time for themselves.

Shoppers are equally likely to view managing/avoiding stress as both a health concept and a wellness concept.

Figure 2. Ways In Which Shoppers Manage Their Health and Wellness

	All Shoppers	Low Income (<$35K)	Gen Y Parents	Boomers	Low Income (<$35K)	Gen Y Parents	Boomers
Sample size	*4,052*	*1,477*	*343*	*1,502*	Index vs. All Shoppers		
Eating healthier foods	61%	**55%**	57%	62%	90	94	**102**
Exercising	55%	**45%**	52%	54%	82	95	**99**
Taking vitamins/supplements	52%	**48%**	**37%**	**61%**	92	72	117
Doing more cooking at home instead of eating out	44%	41%	**51%**	44%	94	115	100
Making sure I complete all my routine, preventive doctor visits (e.g., physicals, annuals, dental cleanings)	42%	**37%**	**29%**	**52%**	89	70	124
Making sure to make time for myself/have "me time"	36%	35%	35%	35%	97	97	**99**
Using over-the-counter medications to treat minor illnesses	21%	22%	**12%**	**26%**	105	59	125
Trying to achieve a better work-life balance	16%	**13%**	**21%**	**11%**	82	130	67
Learning a new skill or hobby	12%	12%	16%	**9%**	104	132	75
Using personal devices to monitor my health/activity (e.g., FitBit, Jawbone Up, pedometer)	12%	**7%**	13%	11%	61	116	95
Reducing alcohol consumption	11%	11%	14%	**9%**	**100**	132	83
Trying to spend less time with screens (e.g., smartphone, TV, iPad)	10%	9%	**16%**	**7%**	92	163	74
Quitting smoking	7%	**10%**	7%	7%	148	**101**	104
Other	1%	1%	0%	2%			
None of these	10%	**15%**	10%	9%			

Blue shading and bold indicates significantly greater percentage vs. all shoppers; border and bold indicates significantly lower percentage (95% confidence level)

Gray shading: Indices of 98 to 102, indicating similar likelihood vs. all shoppers

Green shading: Indices ≥ 103, indicating ≥ 3% more likely vs. all shoppers

Red shading: Indices ≤ 97, indicating ≤ 3% less likely vs. all shoppers

Source: Kantar Retail ShopperScape®, January 2016

As alluded to earlier, shoppers tend to think of health more in terms of the physical body and basic functionality, and wellness as more emotional and abstract (that is, more likely to be tied to mental or self-improvement elements *(Figure 3)*. Eating healthy and exercising are the top terms that shoppers associate with "being healthy" (mirroring their overall approach to health and wellness). Basic medical practices — not getting sick, completing routine medical visits, and managing chronic conditions — also rank high. In contrast, laughing, having hobbies, being spiritually centered, and being content with their appearance are the top terms shoppers associate with "being well," representing a much more abstract, existential orientation.

Figure 3. Terms Shoppers Associate With "Being Healthy" or "Being Well"

	All Shoppers		Low Income (<$35K)		Gen Y Parents		Boomers	
	Healthy	Well	Healthy	Well	Healthy	Well	Healthy	Well
Laughing	42%	65%	**46%**	64%	42%	**72%**	**46%**	64%
Having hobbies/interests	30%	64%	31%	64%	31%	**71%**	32%	64%
Being spiritually centered	31%	64%	33%	64%	**25%**	**73%**	33%	65%
Feeling happy with the way I look	35%	63%	34%	65%	36%	68%	36%	63%
Keeping my mind sharp	49%	61%	51%	60%	**42%**	**73%**	**54%**	61%
Having healthy relationships with others	40%	61%	40%	59%	38%	**68%**	41%	59%
Avoiding stress	56%	59%	58%	57%	50%	**68%**	**60%**	58%
Minimizing stress	57%	58%	59%	56%	59%	**66%**	60%	57%
Getting enough sleep	72%	53%	71%	51%	73%	53%	74%	53%
Looking a certain way	30%	50%	32%	51%	26%	**57%**	31%	50%
Being confident that my body is taking good care of me, and I'm taking good care of it	60%	50%	62%	48%	57%	55%	**65%**	49%
Not being sick	67%	50%	67%	49%	**75%**	**42%**	66%	**55%**
Being active	73%	44%	71%	43%	**78%**	**41%**	73%	**48%**
Managing chronic conditions	66%	41%	66%	43%	**68%**	**39%**	68%	**45%**
Completing routine medical visits	66%	41%	65%	41%	**67%**	**36%**	68%	**44%**
Exercising	76%	41%	**71%**	40%	**83%**	**39%**	75%	42%
Having a certain weight	71%	36%	69%	36%	**72%**	**30%**	73%	38%
Eating healthy	80%	34%	79%	33%	**86%**	**29%**	81%	37%
Avoiding overly processed foods	71%	27%	70%	29%	**74%**	**32%**	72%	28%

Blue shading and bold indicates significantly greater percentage vs. all shoppers; border and bold indicates significantly lower percentage (95% confidence level)

Source: Kantar Retail ShopperScape®, February 2016

Many macroeconomic factors are cause for worry. Health-related factors are not among the most worrisome, though 26% of shoppers report feeling extremely worried about paying higher health insurance costs *(Figure 4)*. Among all shoppers, getting sick and not being able to afford medical bills or having to miss work due to illness are significant concerns for relatively few shoppers; however, these scenarios pose more of a threat to specific shopper segments. Similarly, though the percentage of all shoppers who report paying more for healthcare than they did in 2015 is relatively low, paying more was a bigger reality for some shopper segments than it was for others *(Figure 5)*.

Figure 4. Economic Concerns: Percent Who Are Extremely Worried About These Factors

	All Shoppers	Low Income (<$35K)	Gen Y Parents	Boomers	Low Income <$35K)	Gen Y Parents	Boomers
					Index vs. All Shoppers		
Sample size	*4,051*	*1,480*	*306*	*1,497*			
Paying higher health insurance costs	26%	28%	26%	28%	110	100	109
Getting sick and not being able to afford medical bills	19%	**28%**	**25%**	19%	142	128	98
Getting sick and having to miss work	14%	**18%**	**21%**	13%	126	153	90

Blue shading and bold indicates significantly greater percentage vs. all shoppers (95% confidence level)

Gray shading: Indices of 98 to 102, indicating similar likelihood vs. all shoppers

Green shading: Indices ≥ 103, indicating ≥ 3% more likely vs. all shoppers

Red shading: Indices ≤ 97, indicating ≤ 3% less likely vs. all shoppers

Source: Kantar Retail ShopperScape®, April 2016

Figure 5. Percentage of Shoppers Spending More on Healthcare vs. Same Time a Year Ago

	All Shoppers	Low Income (<$35K)	Gen Y Parents	Boomers	Low Income (<$35K)	Gen Y Parents	Boomers
					Index vs. All Shoppers		
Sample size	***4,040***	***1,444***	***299***	***1,450***			
Healthcare services	13%	12%	9%	15%	94	75	115

Green shading: Indices ≥ 103, indicating ≥ 3% more likely vs. all shoppers

Red shading: Indices ≤ 97, indicating ≤ 3% less likely vs. all shoppers

Source: Kantar Retail ShopperScape®, May 2016

Figure 6. Percentage of Shoppers "Very Interested" in Using Services at Retail

	All Shoppers	Low Income (<$35K)	Gen Y Parents	Boomers	Low Income <$35K)	Gen Y Parents	Boomers
					Index vs. All Shoppers		
Eye exams	46%	49%	**54%**	41%	107	116	88
Nutritionist	45%	45%	**52%**	40%	99	116	90
Cooking classes	43%	42%	**59%**	35%	96	136	82
In-store clinic for adults	41%	42%	**54%**	37%	102	131	89
Immunizations	41%	41%	**52%**	37%	99	126	89
Exercise classes	38%	38%	**57%**	30%	100	148	79
Dental exams	37%	**43%**	**47%**	30%	115	128	81
In-store clinic for children	23%	24%	**53%**	13%	102	229	56

Blue shading and bold indicates significantly greater percentage vs. all shoppers (95% confidence level)

Gray shading: Indices of 98 to 102, indicating similar likelihood vs. all shoppers

Green shading: Indices ≥ 103, indicating ≥ 3% more likely vs. all shoppers

Red shading: Indices ≤ 97, indicating ≤ 3% less likely vs. all shoppers

Source: Kantar Retail ShopperScape®, January 2016

As health insurance and overall healthcare costs increase (and as more Americans become insured), shoppers grow increasingly receptive to the idea of using health services at retail *(Figure 6)*. About half of shoppers express interest in optician services at retail, while nutritionist services, cooking classes, and general health clinics or immunizations generate interest from more than 40% of shoppers.

In addition to physical health and healthcare services, beauty products and services are also part of health and wellness, but on the wellness end of the spectrum, occupying space in both the transforming and indulging quadrants. Overall, shoppers are much more likely to view their beauty routines in terms of taking care of themselves (76%) as opposed to simply looking good (25%), but important distinctions exist among cohorts in terms of how they think about and approach their respective beauty regimens *(Figure 7)*.

Figure 7. Female Shoppers' Attitudes Toward Beauty/Beauty Routines Year Ago

		All Female Shoppers	Low Income (<$35K)	Gen Y Parents	Boomers	Low Income (<$35K)	Gen Y Parents	Boomers
Aspirational	I feel confident in my ability to manage my own beauty routine	72%	73%	68%	**77%**	102	94	107
	Physical beauty is important to me– how I look affects how I feel about myself	55%	**51%**	**65%**	**45%**	92	119	83
	I enjoy shopping for beauty products	51%	49%	**65%**	**45%**	95	128	88
	My beauty routine is an enjoyable part of my day	44%	46%	49%	41%	104	112	93
	I like to experiment with new/different beauty products	31%	28%	**45%**	**24%**	91	146	78
	It's usually worth it to invest in high-end beauty products	28%	**19%**	**38%**	**22%**	68	134	79
	My beauty routine is mostly about looking good	25%	24%	**32%**	**19%**	98	132	78
Functional	My beauty routine is mostly about taking care of my skin, hair, etc.	76%	76%	**68%**	**81%**	101	90	107
	Inexpensive beauty products work just as well as more expensive brands	72%	**81%**	**62%**	**78%**	113	86	108
	I prefer to stick to beauty products that I know work for me	69%	72%	**55%**	**76%**	104	80	110
	I view doing my makeup/hair mainly as a nuisance	56%	54%	51%	59%	97	91	105
	Shopping for beauty products is a chore	49%	51%	**35%**	**55%**	105	71	113
	Physical beauty is not that important to me; doesn't affect how I feel about myself	45%	**50%**	**35%**	**55%**	109	77	121
	I don't feel I have the skills/knowledge to do a great job of managing my beauty routine	28%	27%	32%	**23%**	95	115	83

Blue shading and bold indicates significantly greater percentage vs. all shoppers; border and bold indicates significantly lower percentage (95% confidence level)

Gray shading: Indices of 98 to 102, indicating similar likelihood vs. all shoppers

Green shading: Indices ≥ 103, indicating ≥ 3% more likely vs. all shoppers

Red shading: Indices ≤ 97, indicating ≤ 3% less likely vs. all shoppers

Source: Kantar Retail ShopperScape®, June 2016

These figures will be discussed more in depth in terms of three shopper segments that are of high interest to retailers and suppliers, but are of particular interest when it comes to health and wellness: low-income shoppers, Gen Y parents, and Boomers. Each segment represents different health and wellness needs and attitudes.

- **Low-income shoppers** are defined here as U.S. primary household shoppers with an annual household income of less than $35,000. Health is a major concern for this segment for a number of reasons, one of which is that they literally cannot afford to be sick — both in terms of paying for healthcare and missing work. These shoppers face perhaps the greatest barriers to basic health and wellness, and can perhaps benefit the most from guidance, services, and most of all, understanding from retailers and suppliers.

- **Gen Y parents** are defined as U.S. primary household shoppers born between 1982 and 1997 (age 18-33 in 2015) who have children. In 2015, one-third of Gen Y shoppers reported having children versus one-quarter in 2010. This group is important because it has a foot in two cohorts: parents and Gen Y shoppers. Their shopping behavior is undergoing a significant shift as their lifestyles and household needs change. As their responsibilities increase, Gen Y parents will be in the market for various healthcare solutions, and the ways they meet the health needs of their children can largely influence how their offspring seek and approach health and wellness options in the future. This cohort also is significantly more receptive to using retailers' health services and resources.

- **Boomers** are U.S. primary household shoppers born between 1946 and 1964 (age 51-69 in 2015). They are important to the health and wellness landscape for many reasons, but most simply because of their strength in numbers. As Boomers age, the demand for healthcare will greatly increase. Management and care for chronic conditions will become more important for this cohort, as will convenient access to care or prescriptions and products and services that better enable them to age in place.

Working the Framework: Tailoring and Transforming

Tailoring

Manifested in services such as insurance, urgent care, weight management, and pharmacy, tailoring is about a functional, personalized approach to health. In-store clinics are a prime example of a tailoring offer in health and wellness. Overall, this approach is about connecting with shoppers and acting as their partner in managing their unique health needs.

In-store clinics are a prime example of a tailoring offer in health and wellness.

Among the three shopper cohorts examined here, Boomer shoppers take the most functional approach to health:

- Boomers are more likely to focus on completing routine doctor visits and to think of their overall wellness in terms of medical visits, managing chronic conditions, and not being sick *(Figures 2, 3)*.
- They are also a bit strapped when it comes to healthcare, and are more likely than average to feel they are spending more on healthcare services (and insurance) than in the past *(Figures 4, 5)*.
- Even with their higher-than-average focus on functional health, Boomers are more traditional: They underindex in their interest in using health services at retail overall, with optician and nutritionist services being the top services of interest *(Figure 6)*.

Gen Y parents have a nearly opposite profile:

- This cohort is not quite as medically focused as Boomers, but it is more inclined to manage its health and wellness with more abstract efforts, such as by spending less time with screens, achieving a better work-life balance, or learning a new skill or hobby *(Figure 2)*.
- Whereas Boomers indicate some hesitation about using retailers as a legitimate healthcare solution, Gen Y parents are quite on board with the concept. They overindex in their interest in all retail health services asked about in Kantar Retail's ShopperScape® survey, and show fairly equal levels of interest in each service with in-store clinics for adults or children and eye exams generating the most interest by a hair *(Figure 6)*. In other words, if you provide it, Gen Y parents will come.

Low-income shoppers are more of a mixed bag:

- They display less vigilant management of their health and wellness *(Figure 2)*, yet their health is of significant concern — mostly from a financial perspective. Getting sick is a major fear: They are significantly more likely than average to express extreme worry over getting sick and not being able to afford medical bills, and almost as likely to fear getting sick and not being able to work *(Figure 4)*. Missing work due to illness is a concern for Gen Y parents as well — in fact, even more so than for low-income shoppers — but they are a bit more confident in their ability to pay medical bills. Thus, low-income shoppers also overindex in their concern about paying higher health insurance costs. They are not alone, however, as the rising cost of insurance is the top issue about which all shoppers express extreme worry, with low-income and Boomer shoppers feeling this burden to a greater degree.
- While they are less enthusiastic about health services at retail than Gen Y parents, low-income shoppers are a bit more interested in these services than Boomers. Optical and dental exams are key services of interest *(Figure 6)*.

Tailoring: Key Approaches

- **Win Boomers' trust.** They are spending more on healthcare services than they were in 2015 and are more worried than average about higher insurance costs. Communicate the financial benefits of retailer-offered services, and amp up Boomer-directed messaging around less-invasive services (optician, nutritionist) to establish comfort.
- **Partner with Gen Y parents** for the long haul.
- **Demonstrate understanding of and help ease low-income shoppers' woes.** Show that you "get" them.

Transforming

The transforming component of retail motivation in health and wellness encompasses a more emotional, personalized approach to overall wellness versus foundational health services. Examples include wearable fitness devices, salon/spa services, personalized health services, and therapy — all of which tap into shoppers' unique needs and values and suggest comprehensive mind-body nourishment.

Whereas tailoring generally addresses physical health, many elements of the transforming component contribute to mental health. In terms of how shoppers think about "health" versus "wellness," the idea of stress reduction bridges the gap between the two *(Figure 3)*.

- In the aggregate, shoppers are about equally likely to associate managing or avoiding stress with being healthy as with achieving wellness.
- Low-income and Boomer shoppers associate stress slightly more with health than with wellness, though it pretty evenly straddles the line between functional and emotional.
- Gen Y parents associate managing and reducing stress more with being well than with being healthy.

Compared with low-income and Boomer shoppers, Gen Y parents generally display the greatest proclivity for the products, services, and ideas that encompass the transforming component of this framework.

- With their more holistic approach to health, Gen Y parents greatly overindex on enhancing their health and wellness through personal development and rejuvenation — i.e., learning a new skill or striving for a better work-life balance — and are also more likely to incorporate wearable devices into their fitness regimens *(Figure 2)*. These behaviors reflect Gen Y parents' ideas about what "wellness" means: They are significantly more likely to associate having hobbies/interests, being spiritually centered, and enhancing their physical appearance with being well *(Figure 3)*.
- The more functionally minded Boomers and more cash-strapped low-income shoppers are not as oriented toward the elements of the transforming component, though that is not to say that the types of products, services, and ideas included here are irrelevant to these groups. Low-income shoppers, for example, are more inclined toward personal development than the average shopper: They are more likely to say that developing new skills and hobbies is part of their approach to health and wellness; Boomers are significantly less likely to employ this method *(Figure 2)*.

Many elements of the transforming component contribute to mental health.

Beauty services, experts, and interactive in-store experiences are part of the transforming approach to health and wellness by helping shoppers look good, and therefore, feel good — all while creating a personal connection. The functional mindset of Boomer and low-income shoppers applies to their attitudes toward beauty as well. These groups are not as excited about their beauty routines, whereas Gen Y parents are more engaged *(Figure 7)*. For them, physical appearance has a greater influence on how they feel about themselves, which impacts wellness as a whole.

- Gen Y parents are more concerned with their physical appearance, and are more likely than average to admit that their beauty routine is more about looking good than about taking care of their skin, hair, and nails. They find joy in their beauty routines; they like to experiment with new products and believe there is value in investing in higher-end products. Even so, Gen Y parents are more likely than average to lack confidence in their beauty maintenance skills or knowledge — suggesting receptiveness to in-store beauty services and demonstrations.
- Boomer shoppers are more confident than average in their ability to manage their beauty routines. However, they also take a much more functional approach to beauty and find less enjoyment in both the routine and shopping for products. For these shoppers, beauty is more about taking care of themselves than looking a certain way, and they are more content with either inexpensive or their tried-and-true products. Services that help take the chore out of beauty shopping and provide education on the health benefits of various products could be successful with this group.

- Low-income shoppers also are more functional when it comes to beauty routines, though not to the degree of Boomer shoppers. They are a bit more likely than average to say that they enjoy engaging in their daily beauty routine, which perhaps provides a chance for some "me time." While more invested than Boomers, low-income shoppers believe that inexpensive products are sufficient, and they tend to stick with products they know and trust. Their higher-than-average enjoyment of beauty routines, yet lower involvement relative to Gen Y parents, suggests that making time for beauty is a desired luxury for these shoppers, and services that combine beauty with speed and convenience (using more accessible products) could contribute to this cohort's overall wellness.

Beauty services, experts, and interactive in-store experiences are part of the transforming approach to health and wellness.

Transforming: Key Approaches

- **Address stress.** "Transforming" goods and services move beyond physical health to promote the symbiotic mind-body relationship, and stress management is the connecting thread between "healthy" and "well." Understand that stress is not the same for every group or set of circumstances: Low-income shoppers and Boomers approach stress from a slightly more physical health angle, whereas Gen Y parents think about stress a bit more in terms of emotional health.
- **Promote the individual.** Gen Y parents are more likely to approach health and wellness through self-improvement and rejuvenation than low-income or Boomer shoppers, which suggests greater receptiveness to products or services that contribute to personal development and reflection. But do not count out low-income shoppers: While they are likely more stressed in general, they also show interest in personal development, an indication that they have both a greater need for "transforming" goods and services as well as more barriers to accessing them. Make it easy and affordable for these shoppers to focus, even a little bit, on their personal wellness.
- **Align with attitudes.** The concept of beauty varies greatly among Gen Y parents, Boomers, and low-income shoppers. Each cohort approaches beauty with different needs, and would be receptive to different services, messaging, and education within this category. Participating in the beauty category is engaging and enjoyable for Gen Y parents, functional for Boomers, and not always attainable for low-income shoppers. Each group, however, presents an opportunity to provide a solution, differentiate an experience, and enhance wellness. In other words, leverage knowledge of beauty attitudes to extend appeal.

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Supermarket Surprise in 2017: Betting on Bulk

Supermarket Surprise in 2017: Betting on Bulk

By: Diana Sheehan

After a whirlwind exploration of six supermarkets in January in Columbus, Ohio, I was struck by one unexpected similarity. Four of the six had significant space dedicated to bulk foods. A department typical of specialty and natural/organic retailers is making inroads in some mainstream retail banners. Bulk foods may be one of the big surprises of 2017.

The Shopper Point of View

For shoppers, bulk foods meet a number of different needs. When consumed in moderation, dried fruit, nuts, trail mixes, and other bulk foods serve as healthy snacks. Bulk sections also allow shoppers to purchase the amount they need, which provides a good solution for small and large households that struggle to make prepackaged items work *(Figure 1)*. Finally, as clearly marketed by Lucky's Market, bulk foods allow shoppers on a budget to control what they spend on a tasty treat, coffee, or even legumes and rice *(Figure 2)*.

For shoppers, bulk foods meet a number of different needs.

Figure 1. Trail Mix, Pasta, and Other Bulk Foods at Giant Eagle's Market District

Source: Kantar Retail store visit

Figure 2. Lucky's Market Promotes Bulk as a Way to Save

Source: Kantar Retail store visit

The Retailer Point of View

For retailers, expanding or adding bulk products serve several purposes. Most importantly, bulk foods are a high-margin department that is relatively easy to operate. Essentially, in a landscape where retailers fight for every dollar, bulk foods can be a source of relatively simple profit. In addition, strong bulk food departments serve as a trip driver and source of differentiation for many retailers. Finally, with shoppers demanding a more experiential shopping process, what is more experiential then finding and packing your favorite items?

The challenge with bulk is ensuring the product stays pristine and fresh, which requires labor costs. However, I would bet the benefits will outweigh the investment costs.

Essentially, in a landscape where retailers fight for every dollar, bulk foods can be a source of relatively simple profit.

Where Do We Go Next?

For retailers:

- Consider how bulk might fit in all of your stores or in a select group or banner based on shopper demographics.
- Explore what could be next in bulk. Natural and organic retailers are playing in this space by offering spices, fresh herbs in produce, oatmeal, sweeteners, and other products that could appeal to mainstream shoppers.

For manufacturers:

- Recognize that bulk foods could expand in a store near you. Plan for potential competition for sales and store space.
- Identify brands and categories that could complement a store's bulk foods set. Could a promotion for cereal or oatmeal pair with a discount on bulk dried fruit?

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Analyzing Walmart's Evolving Private Label Strategy

Analyzing Walmart's Evolving Private Label Strategy

By: Laura Kennedy

Over the last year, Walmart has elevated private label as a strategic initiative by increasing private label density, focusing its consumables brands on Great Value and Organic Great Value, and opening the Culinary and Innovation Center for product development in Bentonville.

This prioritization makes sense: Selling more higher-margin private label could boost Walmart's short-term profits when they are under pressure from investments in associates, digital, and the store experience. Using exclusive products to establish distinctive value could increasingly benefit the retailer in the longer term as well, especially with German discounter Lidl entering the U.S. market and private label-focused Aldi gaining strength. However, Walmart's historically inconsistent approach to its private label branding and pricing raises the question of whether this particular round of private label investment will yield real returns.

To assess the current impact of Walmart's evolving private label efforts and examine how the retailer is approaching private label price and positioning in consumables categories, Kantar Retail canvassed the private label consumables landscape at the Supercenter late last year. This study follows our 2015 examination of Walmart's private label positioning at Neighborhood Market.

Methodology

The study took place at a Walmart Supercenter in the Midwest in early fall 2016 and examined the prices of 40 edible and nonedible grocery items across the Great Value, Organic Great Value, Marketside, and Ol' Roy lines. The study included only products with a comparable private label equivalent. All but two of the national brands were comparable versus Great Value specifically: dog food, which we compared Walmart's Ol' Roy with the national brand, and eggs, which we compared with Walmart's Marketside brand.

To further measure Walmart's consistency across its private label tiers, specifically in edible grocery, the study evaluated prices of nine Organic Great Value items versus their organic national brand equivalents and also assessed Organic Great Value versus Great Value. Notably, among the 40-plus items we initially sampled for this study, just five were comparable (based on size and product qualities) across Great Value, an equivalent national brand, Organic Great Value, and its corresponding organic national brand. As a result of that small sample, the quantitative piece of this study will focus on the baskets mentioned earlier (Great Value versus national brands, Organic Great Value versus national brands, Great Value versus Organic Great Value).

Summary of Findings: Great Value and Organic Great Value vs. National Brands

In the comparison of 40 Great Value items and their comparable equivalent national brand items, Walmart's private labels were 25% less expensive overall than the national branded basket *(Figure 1)*. The Walmart-branded products ranged from 14% more expensive than the national brand to 70% less expensive. Together, the two baskets included 13 Rollbacks: 12 on Great Value and 1 on a national brand item.

Walmart's historically inconsistent approach to its private label branding and pricing raises the question of whether this particular round of private label investment will yield real returns.

In the comparison of nine Organic Great Value items with their comparable national brand products, the Organic Great Value basket was 18% less expensive overall than the organic national brand basket. Similar to the Great Value comparison, some Organic Great Value items were priced higher than their national brand equivalents: The prices

ranged from 11% more expensive than the national brand to 66% less expensive than the equivalent organic national brand. Between the two baskets, there was one Rollback on a national brand item.

Figure 1. Great Value and Organic Great Value vs. National Brand

	Great Value Basket Total	Comparable National Brand Basket Total	Index Great Value to National Brand
Great Value Basket	$62.01	$82.18	75

	Organic Great Value Basket Total	Comparable National Brand Basket Total	Index Organic Great Value to National Brand
Organic Great Value Basket	$30.13	$36.95	82

Note: Great Value Basket includes one Ol' Roy item and one Marketside item.
Source: Kantar Retail research and analysis

Summary of Findings: Great Value vs. Organic Great Value

Eight Great Value items had Organic Great Value equivalents. The basket of Organic Great Value items was 123% more expensive than its equivalent Great Value basket, and was priced higher than Great Value on every item *(Figure 2)*. The closest the two baskets came on price was on one item, where Organic Great Value was priced 48% higher than the equivalent Great Value product. The total assessment featured two Rollbacks, one on a Great Value product and one on an Organic Great Value item.

Figure 2. Great Value vs. Organic Great Value

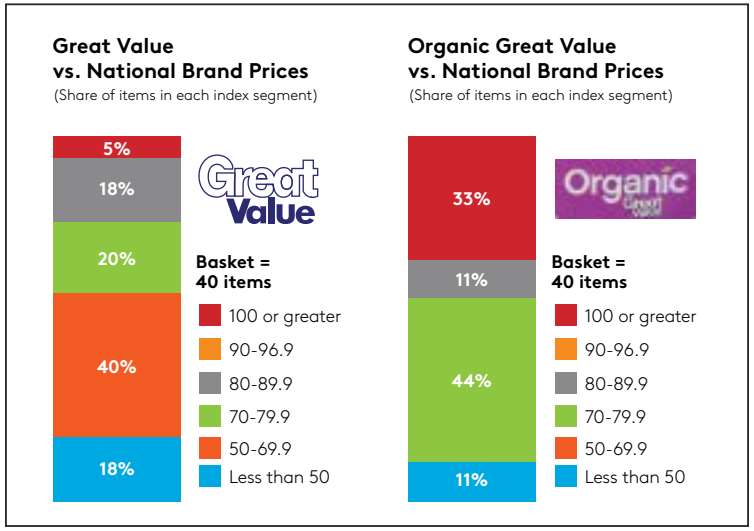
	Great Value Basket Total	Organic Great Value Basket Total	Index Organic Great Value to Great Value
Great Value vs. Organic Great Value Basket	$7.59	$16.92	223

Source: Kantar Retail research and analysis

These overall basket totals and averages do not tell the whole story. Breaking down the baskets by the private label products' indexed difference from the national brands further reveals Walmart's inconsistent approach to pricing its private labels relative to national brands.

For instance, while 40% of the items in the Great Value basket are priced 40% to 50% lower than their national brand counterparts (index of 50-69.9), another 18% of the products are priced more than 50% lower than the national brand *(Figure 3)*. Meanwhile, 33% of the Organic Great Value basket is actually more expensive than the national brand (index of 100 or greater), even though 44% of the basket is priced 20% to 30% lower than the national brand (index of 70-79.9).

Figure 3. Walmart Private Label Price Gaps vs. National Brands



Source: Kantar Retail research and analysis

The basket of Organic Great Value items was 123% more expensive than its equivalent Great Value basket.

Kantar Retail Point of View

As Walmart shifts to elevate value beyond price — with a focus on saving time and making life easier for the "busy family" — potent, clear brand messages that emphasize the roles Great Value, Organic Great Value, and Walmart's other private labels play for shoppers could be a crucial lever for the retailer to pull. Yet the inconsistency in how the brands are priced compared with national brands is just one factor that contributes to confusion over the items' value proposition, and reflects the fits and starts of the private labels' overall value messaging.

For example, with the elimination of the Price First brand, Great Value appears to be Walmart's opening price point (OPP) brand. But the presence of generic "packer brands" across a variety of categories could confuse shoppers about the best value for their money. Among the 40 or so categories sampled for this study, Kantar Retail observed roughly a half-dozen packer brands in products ranging from coffee to cooking oil to toaster pastries *(Figure 4)*.

Figure 4. Generic Items, Often With the Shelf Tag "OPP," Offered Alongside Walmart's Other Private Labels

Source: Kantar Retail store visits

These items are frequently priced less than Great Value items, undermining the price-value equation for the flagship private label — and potentially costing Walmart the extra revenue on an item for which shoppers may have been willing to pay more (i.e., by buying the Great Value option).

At the same time, though, on the other end of the private label ladder, Walmart's intentions for Sam's Choice have become slightly clearer with that brand's rebranding and expansion. The retailer appears to be positioning the brand as a higher-tier private label. Along with changes to graphics that signify the Walmart "seal of approval," the products themselves are specialty items, often offering shoppers a product they cannot find elsewhere, such as a particular flavor of oatmeal or a special cut of pasta *(Figure 5)*. Note that because the items offered under the Sam's Choice umbrella are unique, they often do not have national brand equivalents for price comparison.

Figure 5. Sam's Choice Features Specialty Products

Source: Kantar Retail store visits

Amid these efforts at the low and high end, Walmart — to its credit — is also introducing more innovation in Great Value and Organic Great Value products, such as new salsa varieties and new flavors and types of frozen desserts, that do not simply reflect national brand products. Since Kantar Retail conducted this study, the retailer has gradually elevated Great Value with a new package logo and endcap displays *(Figure 6)*. It is also incorporating the brand into national brand solutions.

Figure 6. Great Value's New Branding (Left Bag)

Source: Kantar Retail store visits

In the end, though, these branding steps, which Walmart is still working through, have yet to yield much clarity around Great Value's role and importance for shoppers — particularly when it comes to conveying quality and unique value. Moreover, to return to this study's original purpose, inconsistency in how Walmart's private labels compare on price is a quantitative indicator that will not escape shoppers as they look to measure value.

That said, even without a clear private label strategy, Walmart's overall focus on private label has particular implications for its branded suppliers as the retailer puts pressure on them to provide everyday low cost and justify their place on the shelf. To maintain their shelf space and partnership with Walmart, here are three key supplier to-dos:

- **Expect continued fluctuation in private label pricing.** As Walmart continues to broaden price investment and prepares for potentially more intense price competition from entrants like Lidl, the retailer is increasingly likely to turn to private label products to deliver price value. (Note the number of Rollbacks on private labels in this particular study.) Be sure to examine shoppers' price elasticity for your categories and have a well-thought-out strategy about how to communicate your brands' quality and value at the shelf.
- **Come armed with data and insights to justify your products' roles.** As Walmart increasingly turns to technology to enable decision-making at the shelf, suppliers will feel more pressure to prove why their items belong. Sales teams need to work harder to remind Walmart of the power of brands to drive traffic, as well as price and value competitiveness.
- **Use your brands' power to help elevate Walmart's brands through solutions.** Align with Walmart's goals to build baskets and drive comps in the store by looking for ways to merchandise complementary categories and products with Great Value and Organic Great Value.

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Lidl's U.S. Landing: Triangulating the Anticipated Shopper Base

Lidl's U.S. Landing: Triangulating the Anticipated Shopper Base

By: Mike Paglia

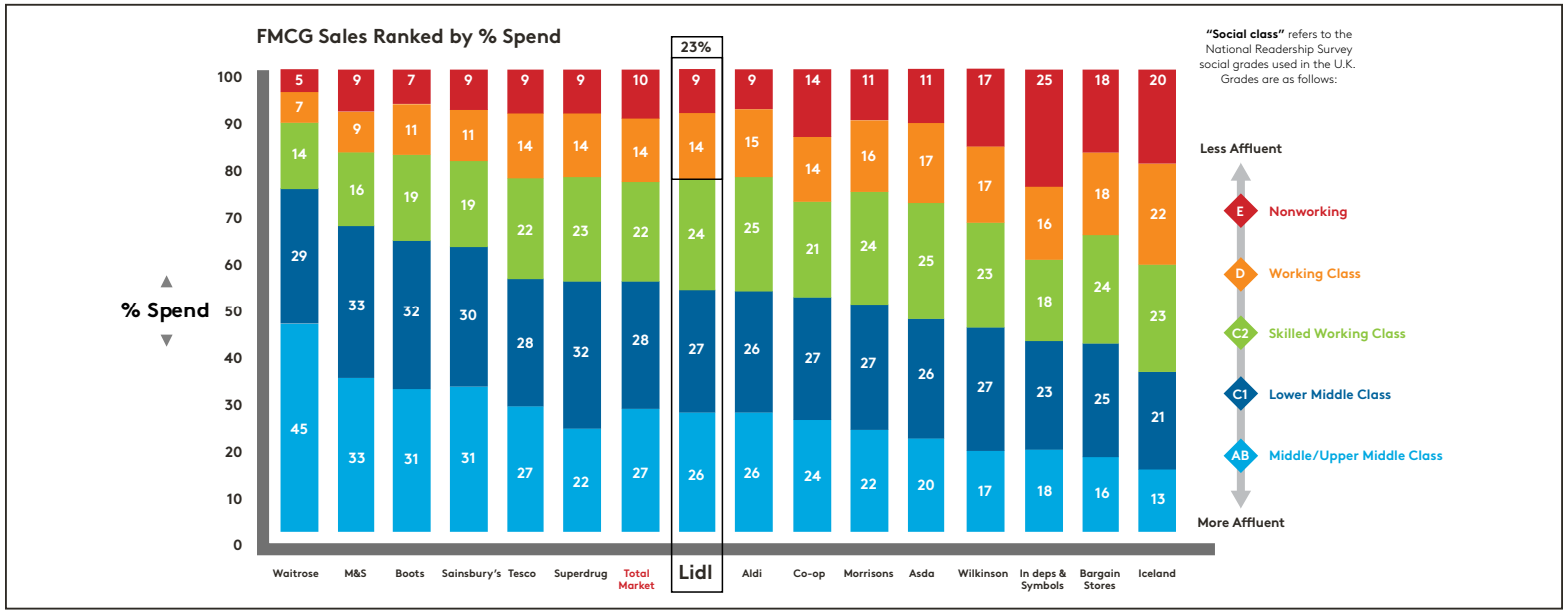
As Lidl opens its first stores in the U.S., Kantar Retail will provide you with its expert point of view on what will be the biggest event in U.S. retail over the next several years. Leveraging our team of global experts and our proprietary data and analytics, Kantar Retail will produce a series of exclusive analyses on Lidl's shopper base, pricing, assortment, and competition before, during, and after the launch.

With Lidl about to open stores in the U.S., many customer teams will find themselves underinformed or operating under misconceptions about the retailer and who its shoppers will be. In this article, we examine Lidl's activities in the U.K. as a proxy and extract key principles about the Lidl shopper, her value expectations, how the retailer engages with her, and the competitors likely to experience the most impact. With that information, we can make informed predictions about Lidl's U.S. shopper: who she is, how she will be drawn to Lidl, and which retailers she is likely to come from.

The Lidl Shopper in the U.K.

Given that Lidl is a discounter with small stores, low prices, and a proliferation of private label items, many suppliers operate under the assumption that Lidl caters overwhelmingly to the low-income shopper. In fact, Lidl is firmly planted among midmarket retailers *(Figure 1)*. Looking at the U.K. as an example, we see that Lidl's shopper base is quite evenly spread across income ranges.

Figure 1. Lidl's U.K. Shopper Base by Social Class



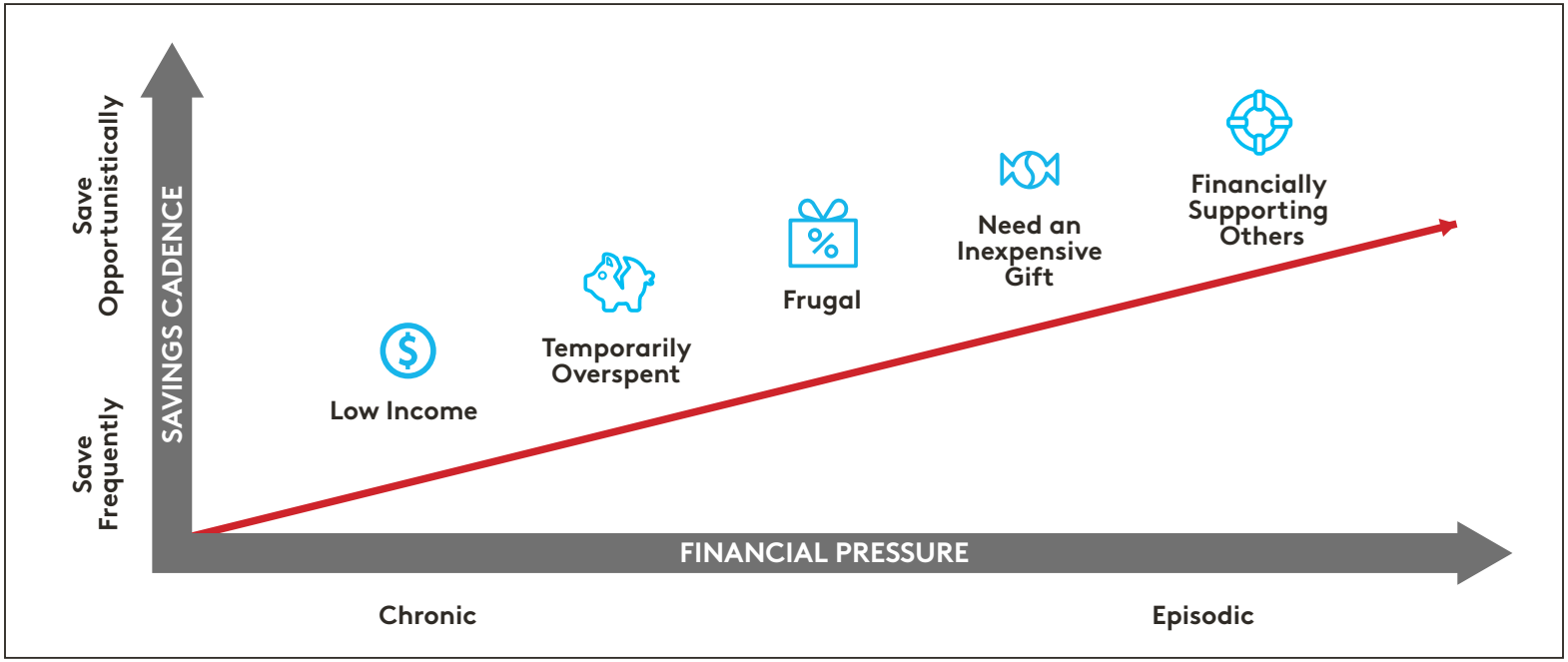
Note: 52 weeks ended Jan. 1, 2017
Source: Kantar Worldpanel

Lidl is firmly planted among midmarket retailers.

According to Kantar Worldpanel data, Lidl's shopper base actually aligns closely to the total market, indicating that Lidl does not target low-income shoppers exclusively. The reality is that while less affluent shoppers make up a significant portion of Lidl's sales (47%), over half of Lidl's shoppers (53%) can be described as more affluent.

Lidl believes that all of its shoppers, regardless of income, are prone to times of financial pressure when they will want to save money. In that context, the retailer views its shoppers as "distressed," a nuanced term that takes into account not only a shopper's income level, but also her financial pressures (that is, expenses) over time *(Figure 2)*. For example, a low-income shopper is likely to face chronic financial pressure. These shoppers are looking to save money every day. By contrast, a more affluent shopper could also feel financial pressure if she has temporarily overspent, is in debt, or is supporting others financially. Because her pressure is more episodic, she is looking to save money on an opportunistic basis to offset that pressure.

Figure 2. Lidl's Key Shopper Segments



Source: Kantar Retail analysis

Given that Lidl serves a wide shopper base, it should be no surprise that its stores are widely dispersed. It aims to locate stores in close proximity to where distressed shoppers live and move (therefore, making the stores highly convenient). For that reason, it is common to see Lidl stores near, for example:

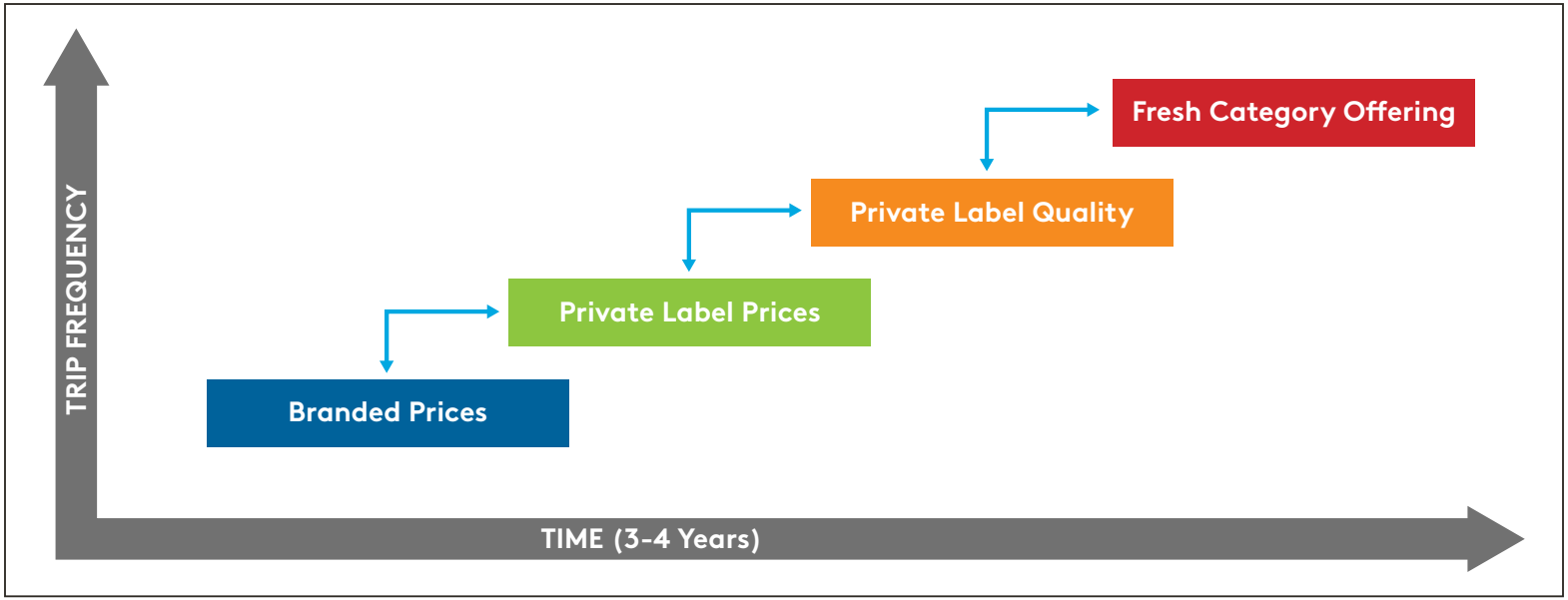
- Universities (with cash-strapped students who make small, inconsistent trips)
- Low-income neighborhoods (where a core shopper segment lives)
- Residential developments aimed at new families (who are just starting out, aspirational, and living on a budget)

All of these shoppers focus on price but under different circumstances. In that context, Lidl positions itself as an easy, inexpensive retailer that puts price ahead of differentiation, a fun shopping experience, or unique items.

How Does Lidl Attract Shoppers?

Lidl views shopper engagement as an ongoing relationship rooted in an evolving and increasingly sophisticated offer *(Figure 3)*.

Figure 3. Lidl's Shopper Engagement Strategy



Source: Kantar Retail analysis

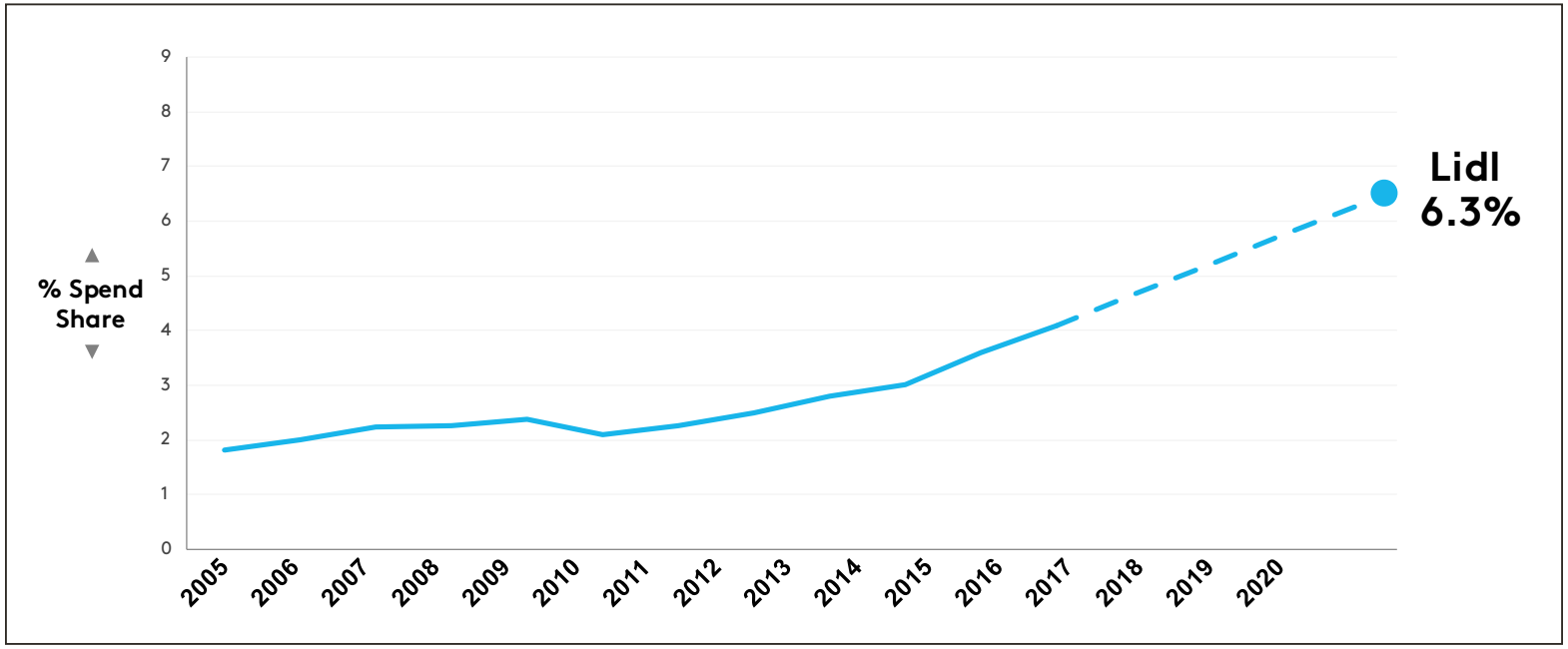
Akin to a long, slow burn, Lidl's shopper engagement strategy features four distinct stages designed to drive trip frequency:

1. Unlike Aldi, upon entering a market, Lidl makes an immediate value impression by pricing branded items (typically nonfood) well below the competition. The aim is to drive traffic into the store and introduce the shopper to Lidl and its offer through familiar items.
2. Lidl deepens the initial value impression by highlighting its low prices on private label food SKUs.
3. Lidl then converts shoppers to "believers" in its private label quality. At this point, shoppers have bought into Lidl's fundamental value proposition of providing low prices and high quality.
4. Finally, Lidl drives trip frequency by offering new perishable categories, such as produce and fresh bread, where good quality is critical to maintaining credibility.

Where Does Lidl Source Its Shoppers?

Lidl has been a massive disrupter in nearly every market it has entered. Looking at the U.K., we see how Lidl has steadily gained share over the years, with an uptick in cadence since 2011 that should accelerate through 2020 *(Figure 4)*.

Figure 4. Lidl U.K. Market Share Growth: Past, Present, and Future

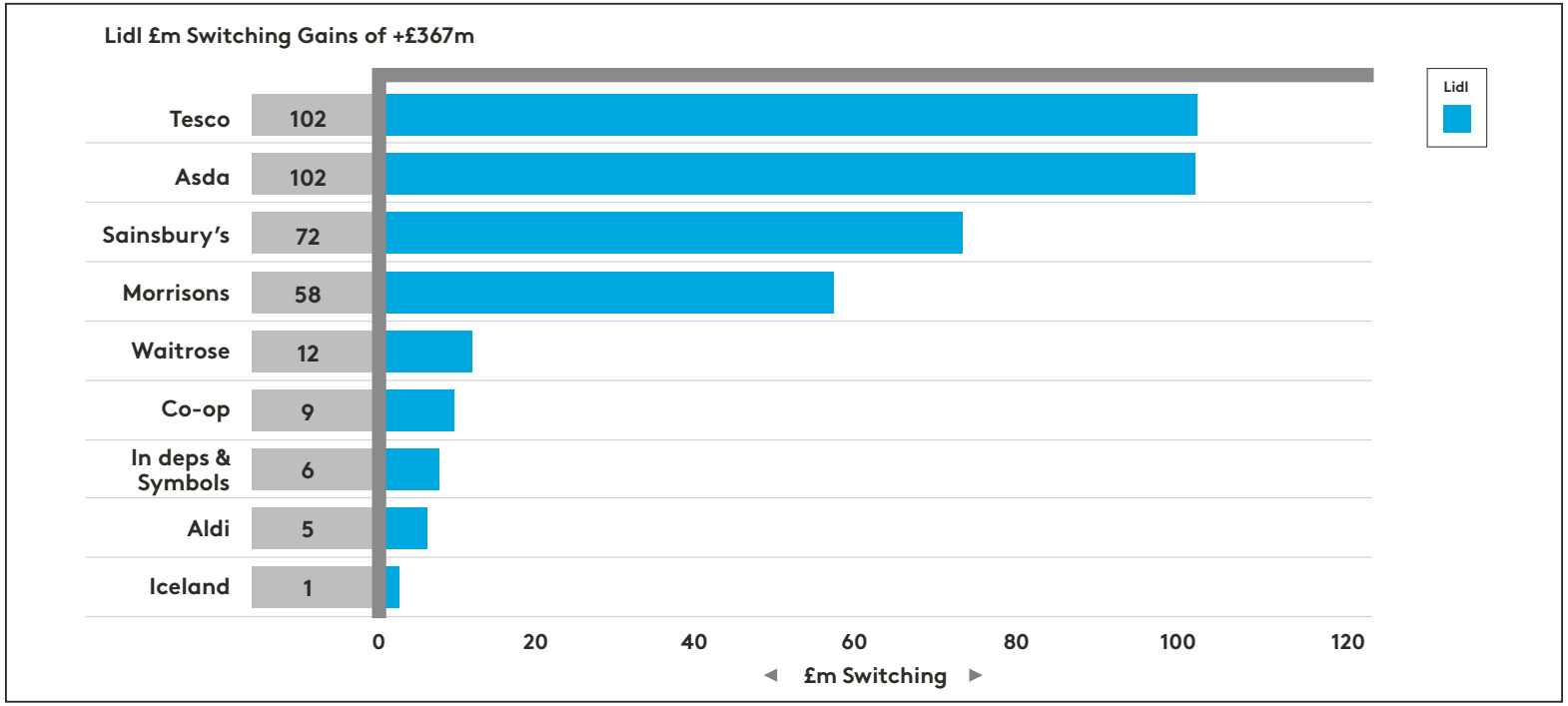


Source: Kantar Worldpanel

Lidl's Anticipated U.S. Shopper Base

Conventional big-box supermarkets and supercenters have been hit the hardest by Lidl's disruptive influence in the U.K. *(Figure 5)*. The retailers colloquially known as the "Big 4" (Tesco, Asda, Sainsbury's, and Morrisons) have been the biggest market share donors to Lidl. This fact challenges the notion that Lidl operates down-market discounters with poor in-store conditions. Shoppers' willingness to shift a portion of their basket suggests that Lid's stores are at least as appealing as a Tesco or a Sainsbury's. Lidl's stores may be small and austere, but they are clean, well-maintained, and pleasant to shop.

Figure 5. Lidl (U.K.) Capturing Significant Volume From Supermarkets



Note: 52 weeks ended Jan. 1, 2017
Source: Kantar Worldpanel

Netting It Out: Lidl's U.K. Shopper

Many U.S. suppliers are misinformed about Lidl and its shoppers. More importantly, many companies are forming opinions about the retailer based on misconceptions that are at odds with reality:

The Misconception: Lidl operates down-market discounters with a corresponding in-store experience. Its predominantly low-income shoppers come from poor areas and do most of their shopping there. Lidl competes primarily with other discounters like Aldi.
The Reality: Lidl operates a variety of no-frills midmarket stores that are pleasant to shop. Its shoppers, who come from a wide range of income brackets, are all price-sensitive. They demand a fast, easy fill-in trip, but for different reasons. Lidl attracts shoppers from larger-format supermarkets and supercenters.

To the degree that Lidl will leverage this approach in the U.S. to one-up larger-format stores, the retailer will take significant share from retailers in the competitive crosshairs.

Lidl's (Soon-to-Be) U.S. Shopper Base

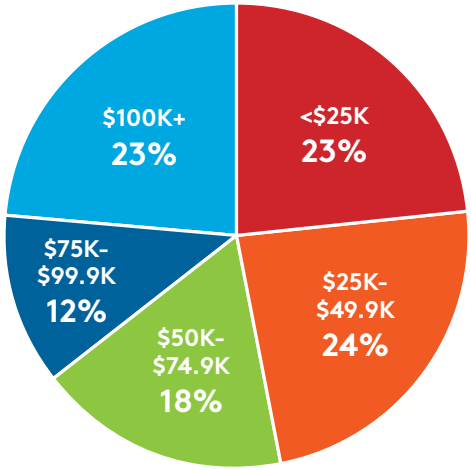
Lidl has demonstrated that it can offer relevant value to a wide range of shoppers sourcing from a wide range of formats, and we have every reason to believe it will implement a similar strategy in the U.S. The approach is ideally suited to highly fragmented populations, which is a key characteristic of the East Coast market where Lidl will launch *(Figure 6)*.

Lidl will likely attract shoppers from a variety of demographic profiles, rather than focus on a specific subgroup (for example, low-income shoppers). Indeed, the income distribution for the East Coast bears a striking similarity to the income distribution for the U.K. as shown in *Figure 1*. For example, the most affluent segments in both markets comprise about a quarter of overall shoppers.

Consistent with its history in the U.K., Lidl's U.S. shoppers should share certain characteristics:

- Price sensitivity
- A desire to save time and money
- A desire for a more convenient shopping experience
- A willingness to complement their stock-up trip with smaller, frequent trips
- An openness to trying private brands

Figure 6. Mid-Atlantic and South Atlantic U.S. Shopper Income Distribution



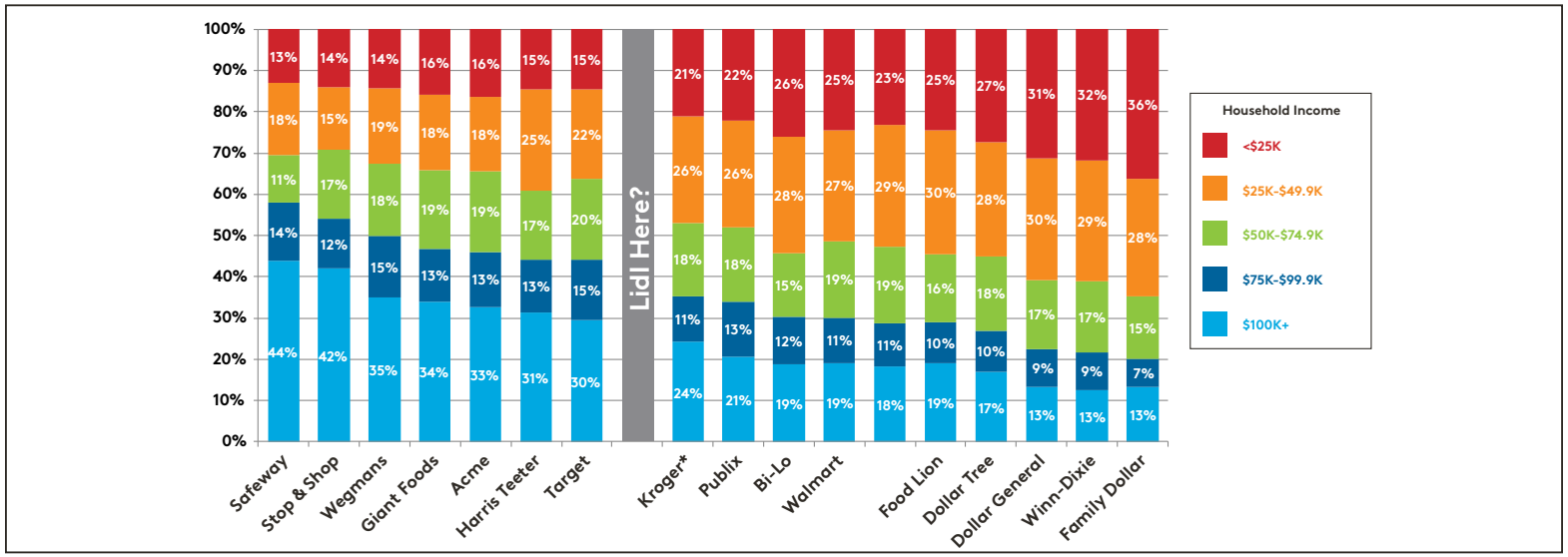
Lidl's Anticipated U.S. Shopper Base

Source: Kantar Retail ShopperScape®, 2016

Lidl's (Soon-to-Be) Competition: Who Will Feel the Pressure?

Lidl's positioning as a midmarket retailer means that a wide variety of competitors will be impacted, a scenario similar to that in the U.K. *(Figure 7)*. Indeed, Lidl could occupy a position between Target and Kroger, which would likely come as a surprise to most.

Figure 7. East Coast Retailers' Shopper Bases Segmented by Income



** Kroger includes Kroger/Kroger Marketplace/Kroger Fresh Fare.*
Source: Kantar Retail ShopperScape®, 2016

Similarly, Lidl, with its 36,000-square-foot stores, will position itself as a faster, easier, more convenient fill-in trip destination meant to draw volume away from larger-format stores. This puts retailers as varied as Kroger, Walmart, and Food Lion directly in Lidl's path. Ironically, smaller formats, such as the dollar stores, should feel less of an impact.

Not all retailers will be impacted equally. By accounting for variables such as geography, store footprint, store density, and brand positioning in addition to shopper income, we can segment the competition by level of risk *(Figure 8)*. For example, retailers with a large concentration of stores in the mid-Atlantic (such as Food Lion), a relatively undifferentiated value proposition (such as Winn-Dixie), or a large format (such as Walmart) have a greater risk of leaking shoppers to Lidl. Retailers with highly differentiated stores (such as Publix and Dollar Tree) or those with few stores in the market (such as Wegmans) are at a lower risk.

Figure 8. East Coast Food Retailers: Lidl Risk Assessment

Source: Kantar Retail analysis

Lidl's Anticipated U.S. Shopper Base

Kantar Retail Point of View

Though retailers and customer teams need to prepare now for Lidl's potential to disrupt the shopper base, the specific action steps vary for each group.

Retailers need to do the following to mitigate Lidl's disruptive influence:

- Assess the overall likelihood of your shoppers switching to Lidl. Aldi's impact may provide a valuable proxy here. For starters, review how Aldi's arrival affected your stores' volume. From there, ask whether your current shoppers might find Lidl's offer more appealing. By identifying at-risk shoppers, you can either focus on keeping them or ensure your planning efforts account for the fact that they might switch.
- Identify the core attributes of your stores' offer, particularly those that shoppers cannot get elsewhere. Conversely, uncover the gaps in your offer that could prompt shoppers to switch. Aggregating this analysis into a scorecard will allow you to fortify your value proposition with your most loyal shoppers.
- Showcase the differentiated strengths of your stores. Examples include a deep assortment, a wide array of national brands, specialized areas of expertise, high levels of customer service, added services such as click-and-collect, and a convenient experience. The point is to remind shoppers why they choose your store as a destination.
- Visit Lidl's stores in various European markets. Develop a knowledge base of the retailer's formats, layouts, shoppers, convenience drivers, and so on. Integrate these learnings into a playbook to decode Lidl's strategies and implement an appropriate response.

Customer teams should take the following (equally pressing) actions:

- Engage your European colleagues who have firsthand experience competing with Lidl. Tap into their on-the-ground insights. Get their perspective on the initial volume shift when Lidl came into the market. Understand which categories got hit hardest and which were less affected. Incorporate these learnings into a "Lidl action plan" that you can share internally and with your customers.
- Anticipate that Lidl will most certainly try to underprice competitors on key items with a known value to the shopper. Identifying these items in advance will be critical. Develop a promotional campaign for them now offering compelling, difficult-to-compare value that will drive stickiness with the shopper.
- Model the potential impact of shopper leakage. Inevitably, some shoppers will move to Lidl. Understand how deep and sustained that leakage may be. Sorting shoppers by trip mission, frequency, and basket contents, as well as by attitudes toward value, convenience, and private label preference will allow you to segment shoppers as "secure" versus "at risk." Quantifying the potential volume of at-risk shoppers will allow you (and your customers) to proactively develop a strategic approach to protect your existing businesses.

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Amazon's Four Stages of Development: A Practical Guide for Suppliers' Selling Strategies

Amazon's Four Stages of Development: A Practical Guide for Suppliers' Selling Strategies

By: Robin Sherk

Executive Summary

Amazon operates as a platform, with four formulaic stages of development as it expands in a market. This article details these development stages and discusses the key planning considerations for suppliers at each stage.

Amazon is the fastest-growing retailer globally whose market reach continues to widen. At the end of 2016, rumors buzzed about the retailer potentially making a full-scale eCommerce launch in Australia, acquiring Souq.com, and entering Southeast Asia through Singapore. (Note: In March 2017, Amazon announced its acquisition of Souq.com.) And that's on top of the continued expansion of its services and offers across long-established markets, such the U.S., U.K., and Germany.

Looking at Amazon's expansion across countries shows a formulaic pattern. Amazon functions as a platform, with a standard website functionality and underlying approach across markets. Comparable to how Costco exports its iconic warehouse model internationally, this approach means supplier (and competing retailer) teams can share considerable learnings across markets.

Equally important is the fact that cross-country similarities do not stop at just the website functionality. The Prime membership offer is also standard. Chief Financial Officer Brian Olsavsky acknowledged Amazon is following the "same playbook as the U.S." across countries when rolling out Prime benefits and services, with Europe and Japan a few years behind the U.S. in terms of development.

Specifically, Kantar Retail identified four distinct stages of development that each country goes through. These stages apply across most retail markets, though the unique circumstances of certain developing markets — specifically India and China — have required Amazon to engineer creative solutions. These exceptions aside, the four stages of development we have identified from the least to most sophisticated are: flag planting, market share, channel dominance, and share of wallet.

Stage 1: Flag Planting

In this stage, Amazon establishes a dedicated website presence for the market. The retailer often starts by selling only media and select electronics, such as the Kindle. Building brand awareness and consideration through its traditional strength in media is the focus, with original content and devices a more recent emphasis. Countries in this phase include Australia and Brazil.

Stage 2: Market Share

Developing further, Amazon adds multiple categories and becomes a fully functional retail platform with a range of marketplace sellers listed alongside its first-party offering. Its assortment includes consumables, with a specific emphasis on baby and pet. In this stage, the retailer is very small but growing fast and focused on expanding its capabilities and reach. By the end of this stage, Amazon introduces the full Prime membership. Mexico, where the retailer launched a fully functional eCommerce site in 2015, is in this phase.

Stage 3: Channel Dominance

By this point, Amazon has expanded its category reach and assortment breadth and is building out its suite of Prime benefits, including Amazon Family, Amazon Student, as well as photo and other media services. More convenience-oriented services, such as Subscribe & Save, Same-Day Shipping, and Prime Now, also appear that allow the retailer to start competing on convenience as well as selection and price. While Amazon is now a strong pure-play competitor in

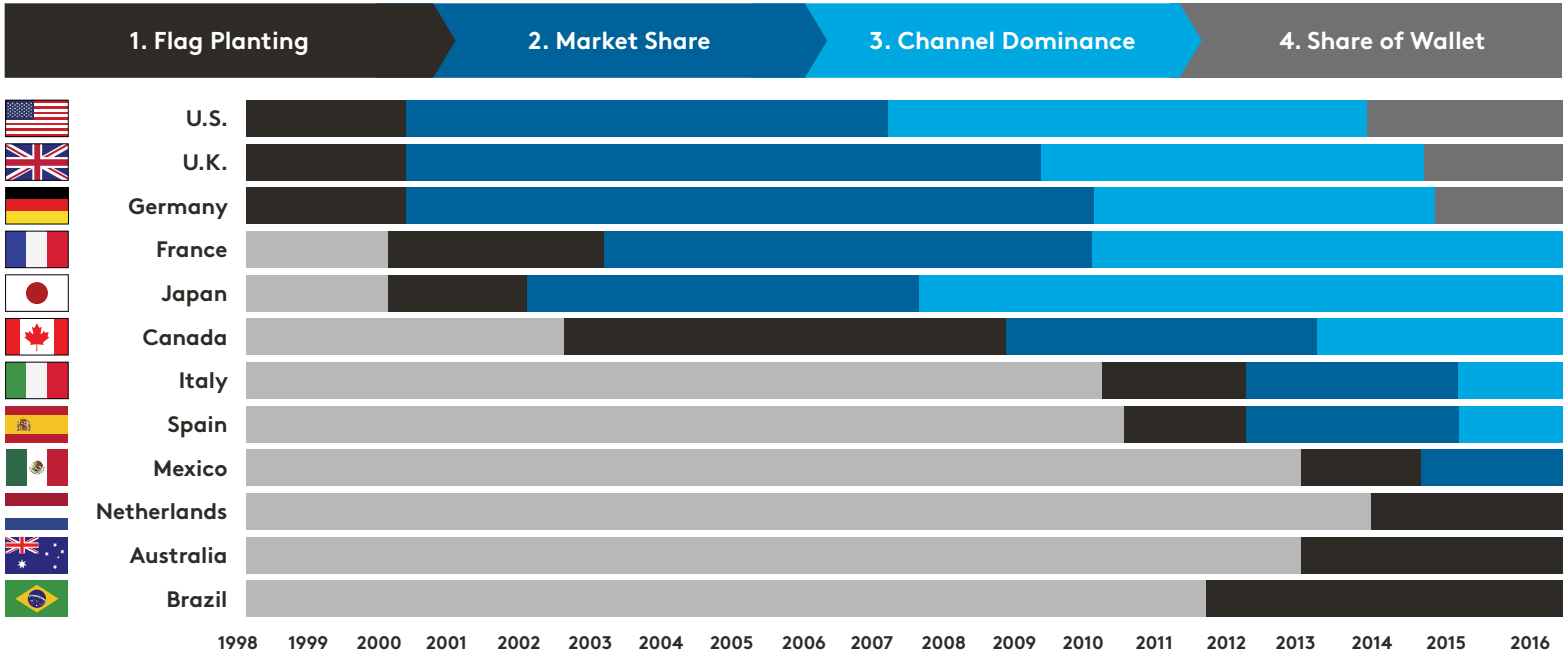
the market, it is not among the top 10 retailers. The growth focus is still on reaching a wider audience and driving Prime membership sign-ups to deepen engagement. Countries in this stage include Canada and Spain.

Stage 4: Share of Wallet

Here, Amazon focuses on embedding itself in members' daily routines. As Prime memberships reach a critical mass, the retailer shifts gears to capture a wider range of trips and needs, targeting weekly grocery baskets. To do so, Amazon introduces shopping devices, such as Dash Replenishment Services and Alexa, to elevate its convenience offer and seamlessly connect into the home. A growing range of platforms, including Prime Pantry, Prime Fresh, and Home & Business Services, come into play to capture more audiences and needs. By now, Amazon is already a very popular retailer in the country, vying with brick-and-mortar players across channels. The focus on profitability, while also important in the channel dominance stage, only intensifies here as Prime-exclusive private labels expand. Prime membership renewals are key to supporting the Amazon ecosystem of shopping, media, and lifestyle services. Countries in this stage include the U.S. and U.K.

To summarize Amazon's positioning globally, *Figure 1* outlines the stages of development across Amazon's markets.

Figure 1. Amazon's Market Reach and Stages of Development Over Time



Source: Kantar Retail analysis

Kantar Retail Point of View

Mapping Amazon's global rollout shows how the retailer's platform uses a relatively formulaic playbook. This is important for suppliers and competitors because it supports predictable planning and shared learning. All teams should look to the U.S. to anticipate the programs that will roll out to their markets eventually.

Best-practice supplier teams already share learnings across markets in comparable stages to better benchmark their circumstance and retailer demands. This means U.S. teams should coordinate with the U.K. and Germany; comparisons to Canada and Mexico are less relevant. Conversely, Canadian teams should share experiences with teams in Spain and France.

Coordinating among countries in different stages of development is also becoming more important because Amazon is accelerating its rollout of new services. Previously, Amazon would develop programs such as Amazon Family and Amazon Student in the U.S. for a few years before taking them to other markets. Now, it tests and rolls out new initiatives to new markets in just months. Examples include the fast rollout of Prime Now and Dash Buttons in 2016. As Amazon moves faster, the pressure on suppliers increases to test Amazon's innovation and respond to the impact on their categories.

Within stages, suppliers must master specific areas to effectively position themselves on and sell through Amazon *(Figure 2)*.

Figure 2. Supplier Considerations at Each Stage of Development

1. Flag Planting	2. Market Share	3. Channel Dominance	4. Share of Wallet
- **Monitor brand awareness** and interest in Amazon. - **Watch for online shopping barriers to erode** (e.g., competitor growth, use of online payments). - **Anticipate the need** to resource against the retailer.	- **Develop strategy and devote resources.** Map across third-party and first-party options. - **Execute tactically** on product listings (images, reviews, descriptions). - **Attune to Amazon KPIs.** Hone levers to improve page rank in search results (e.g., in-stocks, profit margin). - **Support Amazon's visibility** in online marketing. - **Manage pricing** across retailers, given price crawlers.	- **Share best practices** across markets. - **Allocate marketing spend,** complementing trade with brand investment. - **Elevate brand presence** on the platform. - **Support Prime** through Family/Student tie-ins, Prime Day awareness, etc. - **Expect rising item profit pressure** with a focus on supply-chain efficiencies.	- **Place bets on innovation,** strategically investing in Amazon's disruptive tests. - **Expect greater complexity** and resource needs to manage across platforms. - **Attune to Prime** with focused insights and targeting. - **Examine the interplay** of content/media, services, and product. - **Align to basket dynamics** of online grocery (Pantry, Fresh, Now).

Source: Kantar Retail analysis

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Alibaba and the Opportunities for Brands

Alibaba and the Opportunities for Brands

By: Malcolm Pinkerton

Executive Summary

China's Alibaba is building an ecosystem to dwarf Amazon's, with ambitious plans to dominate not just eCommerce, but overall commerce. Here's why brands should make this retail behemoth part of their strategic plans.

Alibaba's intentions to increase its globalization, boost its penetration in underserved rural markets, create frictionless online-to-offline (O2O) shopping, and focus on big data make it a force to be reckoned with. Looking at the retailer's near-term strategic goals, these four priorities are clear, all of which present significant opportunities for brands:

- Going global
- Acting local
- Becoming channel-less
- Getting smart with big data

Going Global

A key pillar of Alibaba's ambitions is helping international brands expand into China through Tmall Global and developing efficient cross-border payment and logistics solutions *(Figure 1)*. To that end, Alibaba is relentlessly focusing on:

- "One Belt, One Road," creating a logistics network that connects China with dozens of Asian and European countries
- Its Electronic World Trade Platform (eWTP) payment solution, with the objective of making it easier for businesses to expand trading capabilities worldwide

Alibaba's capabilities in mobile commerce, cloud computing, payments, digital entertainment, and logistics are exceptionally valuable when expanding into new markets — and for convincing brands and retailers to join its ecosystem.

Figure 1. Unilever Storefront on Tmall Global

Source: Retailer website

Alibaba wants to become a significant player in India, with its investments in local marketplace Snapdeal and payment solution Paytm clear evidence of that intent. Alibaba's stake in Chinese mobile manufacturer Xiaomi, combined with its scale and resources, enable it to offer shoppers in India an affordable handset preloaded with Alibaba's shopping apps. Alibaba also plans to launch Paytm Mall, an Indian version of its own Tmall marketplace, which will trigger a three-way battle with India's Flipkart and Amazon.

Other priority countries are Australia and New Zealand. In 2017, Alibaba plans to launch in Central and Eastern Europe, with a potential acquisition of Poland's Allegro auction site. Further expansion into Southeast Asia is likely now that Alibaba has taken a controlling

interest in Lazada, helping ensure dominance in the region. This stake provides huge potential for those looking to capitalize on eCommerce growth in countries such as Vietnam and Thailand. Acquiring online grocery player RedMart in Singapore gives Alibaba the beginnings of a more substantial supermarket offering. Alibaba is also rumored to be planning an acquisition of Sun Art's RT-Mart supermarket chain to help conquer online grocery.

Opportunity for brands: Alibaba provides brands with access to China and beyond. Creating a shopfront on Tmall Global will enable brands to maintain their brand equity, while granting access to all the tools that remove the barriers and pain points associated with cross-border eCommerce.

Acting Local

Alibaba is rapidly overcoming the fragmented nature of logistics in China by making express delivery more tenable, which helps fuel growth. Through its Rural Taobao Partners, Alibaba provides Internet connections and purchasing and delivery services to shoppers in rural areas, which allows them to sell their products to other parts of China *(Figure 2)*. Alibaba had anticipated setting up at least 100,000 of these centers in villages by the first quarter of 2017.

Figure 2. A Rural Taobao Store

Source: Alizila.com

Mobile is also fundamental to broadening reach in China. Alibaba's strategic partnership with China Telecom to sell affordable handsets is designed to increase mobile commerce. Fundamental to growth in rural China will require Alibaba to link its financial and logistics services to build a closed-loop ecosystem. Doing so will involve Alibaba's Ant Financial finance affiliate providing lending and payment services, while its Cainiao Network logistics arm expands to more counties.

Opportunity for brands: In becoming part of Alibaba's ecosystem, brands will gain access to new shoppers and merchants in rural China. Flexible and efficient logistics will make for sustainable, scalable fulfillment solutions, helping drive profitable growth.

Becoming Channel-less

As retailing evolves beyond omnichannel, Alibaba is bolstering its ecosystem to create seamless, channel-less experiences. A key element of this evolution involves combining its digital marketing assets — namely UCWeb, Youku Tudou, Sina Weibo, and Tmall Box — with its Tmall and Taobao consumer media platforms to deliver personalized experiences at every touchpoint. More importantly, though, is Alibaba's O2O strategy. Already boasting investments in retailers such as Suning, grocery chain Sanjiang Shopping Club, and white goods manufacturer Haier, Alibaba earlier this year acquired China's Intime Retail, which operates 29 department stores and 17 shopping malls in urban China *(Figure 3)*. Alibaba will further boost its offline presence if talks with Sun Art come to fruition.

Figure 3. An Intime Shopping Center

Source: Company website

In its latest O2O push, Alibaba has formed a strategic partnership with the Bailian Group. Operating 4,700 outlets that include supermarkets, convenience stores, and pharmacies in 200 cities, the retailer has more than double the stores owned by Suning, Intime, and Sanjiang combined. Initially, the two firms will cooperate on supply-chain technology using Alibaba's big data capabilities, and they will integrate Alipay payments with Bailian Group's existing membership program.

By integrating the power of its mobile reach, real-time consumer insights, and technology that will improve operating efficiency, Alibaba hopes to create the seamless channel-less experiences that shoppers are quickly seeing as the norm.

Opportunity for brands: Alibaba is well-positioned to enhance the shopping experience, while collecting valuable data that will allow brands to sell more goods faster and more profitably. This strategy should allow brands not only to become more discoverable, visible, and shoppable, but also to provide the experiences that shoppers demand while managing inventory more efficiently.

Getting Smart With Big Data

With the Internet of Things and mobile creating a constantly connected consumer, Alibaba is looking to leverage its capabilities in cloud computing and big data analytics by seeking strategic partners that can fully monetize its assets in creating highly personalized experiences for channel-agnostic shoppers.

Since driving volume heavily depends on tailoring products for the nuances of each market, a new approach to manufacturing is required. This is where Alibaba's data becomes invaluable because it can inform brands in advance of what shoppers want to buy. Indeed, brands are waking up to this flatter system of getting closer to shoppers. Alibaba's deal with Mattel is a prime example of this mutually beneficial approach. Mattel will use Alibaba's shopper insights to make products relevant to Chinese parents, allowing Alibaba to monetize its data on shopper preferences and habits. In another example, Alibaba partnered with Mondelez to allow shoppers to customize packages of Oreo cookies bought on Tmall *(Figure 4)*.

Figure 4. Oreo's Interactive Marketing Campaign With Alibaba

Source: Retailer website

Opportunity for brands: By partnering with Alibaba, brands will be able to leverage insights derived from this huge data resource to ensure products are relevant to the Chinese shopper. Brands should leverage Alibaba's sophisticated marketing tools to build awareness and engage and acquire shoppers, while creating enhanced shopping experiences and improving productivity *(Figure 5)*.

Figure 5. Alibaba's Consumer Engagement Ecosystem

Source Alizila.com

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As Metro Cash & Carry Drifts to Wholesale, How Can Suppliers Maintain It as a Key Strategic Account?

As Metro Cash & Carry Drifts to Wholesale, How Can Suppliers Maintain It as a Key Strategic Account?

By: Vadim Khetsuriani

Metro Cash & Carry continues to shift its business from brick-and-mortar cash-and-carry stores toward wholesale delivery and online with a diverse mix of small business services rounding out its offer. This "drift to wholesale," which started approximately in early 2014, is gaining traction:

- In Asia, Metro formed a joint venture with Yoma Strategic Holdings Ltd. in Myanmar to establish a food distribution platform without investing in a cash-and-carry store.
- In Europe, Metro signed a partnership agreement with Kuehne + Nagel for warehousing and distribution services in Croatia that will start in 2017.

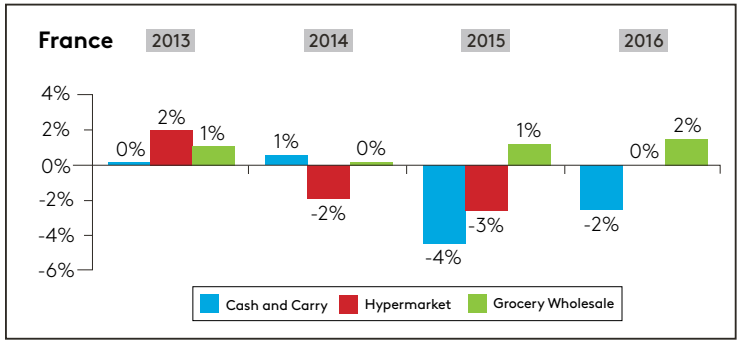
These partnerships, as well as a series of recent investments (for example, in Singapore-based food service distributor Classic Fine Foods, Spanish food service distributor MidBan, and German premium food supplier Rungis Express), have gradually put Metro in a different league.

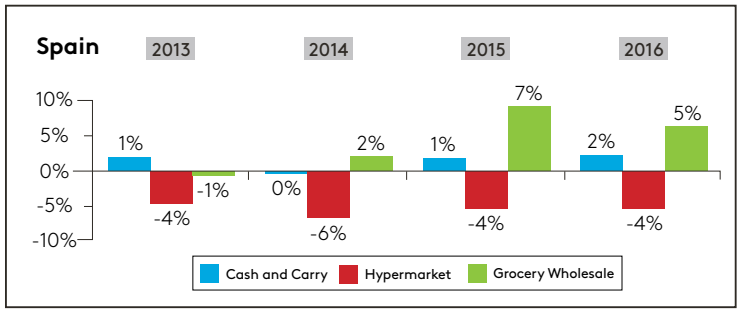
While it operates cash-and-carry stores accessible only to members, we know Metro as a company that operates stores nonetheless, stores with a familiar, hypermarket-style layout and shopper touchpoints. This store-based mentality has been guiding suppliers' commercial relationship with Metro Cash & Carry. With 752 cash-and-carry stores worldwide, Metro is a strategic global key account for brand manufacturers. Now, however, Metro is on a path to becoming a global food service and wholesale company, in which case stores become less important. In light of this, branded manufacturers should rethink Metro's role for their business and explore new ways of keeping Metro as a strategic account.

Cash-and-Carry Stores: Declining Sales and the Changing Role of Stores

Unlike the wholesale delivery trade, which grew in the single or high single digits in France and Spain, cash-and-carry store-based growth either declined or grew at a modest rate of 1% to 2% between 2013 and 2016 *(Figure 1)*.

Figure 1. Cash-and-Carry Store-Based Growth vs. Hypermarkets and Grocery Wholesale Delivery





Source: Eurostat, KantarRetailiQ.com

Metro Cash & Carry sales per store in Europe declined 2%. The number of stores has grown almost exclusively as a result of expansion in Russia, India, and China. Store counts in Western Europe have been on the decline with divestments in the U.K and Denmark. A few Western Europe stores that Metro opened in recent years did not drive revenue or volume, but did serve to bolster Metro's new image as a convenient destination for premium and ultrafresh products used in the hotel, restaurant, and catering (HoReCa) business. HoReCa customers might be willing to visit a cash-and-carry store to consult a sommelier, sample wine, and choose fresh products for the kitchen if the trip is quick and convenient. Trader customers are less likely to visit a cash-and-carry store to pick up merchandise for resale — packaged goods such as soft drinks, beer, or dry grocery that do not require a "touch, taste, and sample" experience. They can order these products online or over the phone from a reliable delivery service.

Therefore, the role of cash-and-carry stores for Metro is changing. While they used to be places customers visited to make purchases, these stores are now a destination for high-margin, premium, and ultrafresh products that require a personal, face-to-face buying experience. Customers may visit a store to learn about new products or get new ideas and tips on how to improve their business.

Metro's Client Mix by Market

Metro operates stores in 25 markets, and the mix of Metro clients — HoReCa, traders, and service companies — differs significantly by market. In Italy, for example, 70 percent of Metro sales are to HoReCa customers. In Romania, by contrast, only 26 percent of sales are to HoReCa customers while 50 percent are to traders. Metro would like to capture more HoReCa clients, particularly those operating premium restaurants and high-end hotels and catering services. However, Central European countries such as Romania, Hungary, Ukraine, Slovakia, Bulgaria, Serbia, and Moldova have fewer opportunities for Metro to go after premium HoReCa customers compared with France, Italy, Spain, Belgium, and the Netherlands. Most small and independent restaurants in these Central European countries provide a basic meal service because their clients cannot afford the premium, exclusive, imported, and ultrafresh products, such as oysters, fresh octopus, and premium wines, that Metro would like to sell. This makes these countries less attractive for Metro from a margin and profitability standpoint. Traders could be a big customer group to target in Central Europe, but products that traders buy are less profitable for Metro compared with the ones HoReCa customers buy.

Metro would like to capture more HoReCa clients, particularly those operating premium restaurants and high-end hotels and catering services.

The regional lack of opportunities to go after premium HoReCa businesses may prompt Metro to exit more countries. Instead of operating cash-and-carry stores, it may transform itself into a wholesale delivery business by acquiring or partnering with a regional wholesaler or distributor. For example, Metro already closed a dozen Metro Punkt stores in Poland, because it did not make commercial sense to operate stores selling low-margin products to traders. Metro would make more profit if it sold to traders via an online platform and offered delivery through a third-party logistics partner.

The regional lack of opportunities to go after premium HoReCa businesses may prompt Metro to exit more countries.

Another reason Metro is evaluating M&A opportunities in wholesale is that it wants to sell to bigger HoReCa institutions at a time when the HoReCa industry is consolidating. Companies such as Kuehne + Nagel in Europe or Yoma Strategic and Classic Fine Foods in Asia can open doors to big HoReCa clients.

Kantar Retail Point of View

Over the next few years, branded manufacturers completely focused on end consumers will have a difficult time with Metro due to the retailer's strategic shift to a wholesale mindset. While they will continue to trade with Metro, their relationship with the retailer may shift from strategic in nature to more transactional. Even if the brand is strong with end consumers, their products may become complementary in the Metro assortment. To engage with Metro, manufacturers that are already relevant to HoReCa businesses (or that have the potential to be relevant) should:

- Create new marketing to engage and sell to HoReCa
- Embrace online marketing engines, including those developed by Metro
- Explore the "why" behind the HoReCa client brand and product preferences, and feed these insights to Metro

Branded manufacturers should also rethink the role of Metro in each of their markets where independent/traditional trade is big. Competition among local distributors that sell to both traditional trade and Metro will intensify if Metro decides to make an active run at this segment. To anticipate and avoid conflicts of interest, suppliers should:

- Analyze Metro's offer to traders for weaknesses and opportunities related to their categories
- Understand who Metro is competing with nationally and regionally (especially in markets like Russia, India, and China) and expect and prepare for M&A scenarios
- Review their commercial terms and assortment with Metro versus the wholesale competition to limit the risk of direct price competition

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