Retail Revolution:
How Technology and the New Consumer are
Transforming the Food Retail Landscape

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FMI proudly advocates on behalf of the food retail industry

• FMI conducts programs in public affairs, food safety, research, education and industry relations on behalf of its more than 1,225 food retail and wholesale member companies in the U.S. and around the world.

• FMI membership covers the spectrum of diverse venues where food is sold.
Supermarkets Today Look Very Different Than They Did 35 Years Ago

• **Selection**
  – Average Number of SKUs
    • **1980**: 14,145
    • **2015**: 39,500

• **Cost**
  – Food as a % of Disposable Income
    – **1980**
      • At Home – 9.0%
      • Total - 13.2%
    – **2014**
      • At Home – 5.5%
      • Total - 9.7%

• **Technology**
  – Self Checkout
  – Online Sales
Technology and a Changing Consumer are Compressing the Next Retail Revolution into an Even Tighter Timeframe

- **Store Level**
  - New Entrants
  - Digital Technology / Digital Commerce

- **Consumer Level**
  - Rise of the Millennial / Generation X
  - Digitally Engaged Consumer
  - Radical Transparency
The Good News for Food Retailers is That Millennials and Gen Xers are Willing to Spend $ on Food…

**Weekly Household Grocery Expenses – By Age Group**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Average Weekly Spending</th>
<th>At Primary Store</th>
<th>Primary Store %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millennials (18-37)</td>
<td>$117.19</td>
<td>$87.04</td>
<td>74%</td>
</tr>
<tr>
<td>Generation X (38-51)</td>
<td>$122.81</td>
<td>$91.34</td>
<td>74%</td>
</tr>
<tr>
<td>Boomers (52-70)</td>
<td>$93.02</td>
<td>$72.68</td>
<td>78%</td>
</tr>
<tr>
<td>Matures (71+)</td>
<td>$82.82</td>
<td>$66.89</td>
<td>81%</td>
</tr>
</tbody>
</table>

...The Bad News is That They Are Slightly Less Loyal to Their Primary Store Than Other Age Groups
This Trend is Driving a Rise in Multi-Channel Shopping Among Consumers:
Shoppers average 3.7 different stores a month

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarket</td>
<td>56%</td>
<td>54%</td>
<td>52%</td>
<td>49%</td>
<td>56%</td>
</tr>
<tr>
<td>Supercenter</td>
<td>22%</td>
<td>27%</td>
<td>22%</td>
<td>23%</td>
<td>25%</td>
</tr>
<tr>
<td>Warehouse</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Discount</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Limited Assortment</td>
<td>1%</td>
<td>7%</td>
<td>4%</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>Organic/specialty</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>No Primary Store</td>
<td>9%</td>
<td>9%</td>
<td>7%</td>
<td>9%</td>
<td>9%</td>
</tr>
</tbody>
</table>

* * *

In Addition, Consumers are Increasingly Planning, Shopping and Exploring Food Culture Through Social Media

- 53% of TOTAL shoppers
- 73% of Millennials (18-37)
- 59% of Gen-X (38-51)
- 38% of Boomers (52-70)
- 20% of Mature (71+)

Source: FMI U.S. Grocery Shopper Trends, 2016. Q: “Thinking about all the ways you plan, shop for, enjoy and share food experiences, which of these social networking and other tools have you used for something food-related at least once a month?” n=1,005. (See Appendix: Table A.18)
Online Tools Are Playing a Bigger Role in How Consumers Interact With Retailers

- Used a phone app that my grocery store provides: 24% (Total), 17% (Millennials), 17% (Gen-X), 13% (Boomers), 4% (Mature)
- Followed/liked my store through an online social network (Facebook, Twitter, Instagram, etc.): 17% (Total), 9% (Millennials), 9% (Gen-X), 4% (Boomers), 1% (Mature)
- Provided my phone number for text messages: 10% (Total), 6% (Millennials), 5% (Gen-X), 3% (Boomers), 1% (Mature)

Source: FMI U.S. Grocery Shopper Trends, 2016. Q: “In which of the following ways have you engaged with a supermarket or grocery store in the past 12 months?” n=1,005. (See Appendix: Table A.17)
The New Consumer Isn’t Just Digitally Engaged – They’re Engaged With Where Their Food Comes From, How It is Produced and How It Impacts Their Life

How Do You Balance “Value” with “Values”? 
Evolving Consumer Value Drivers

• Consumers are actively shaping and EXPANDING the number of DRIVERS they incorporate into their food purchasing DECISIONS

Source: Deloitte, Capitalizing on the Shifting Food Value Equation (Report for FMI and GMA).
Shoppers Believe That Eating Food Prepared at Home is Healthier for Them Than Eating Out

89% of Shoppers believe eating **AT HOME is HEALTHIER** than eating at a restaurant.

Yet, most are concerned they’re **NOT GETTING ENOUGH GOOD NUTRITION** in the food they eat.

**Top-2 box "Not Concerned"**

- Total: 82%
- Millennials (18-37): 82%
- Gen-X (38-51): 80%
- Boomer (52-70): 83%
- Mature (71+): 82%

**Bottom-2 box "Somewhat/Very Concerned"**

- 18%

**Why concerned?**

- 61% I’m concerned about my health in general
- 44% Some of the food I eat has too much of something I need to avoid
- 22% The foods I eat aren’t nutritious enough in general
- 19% I’m not getting enough of specific nutrients I need
- 18% I have a specific health concern that affects my food choices


The Voice of Food Retail™
Shoppers Recognize Farmers & Their Primary Store as Their Allies

When it comes to helping you stay healthy, which of these groups tend to be on your side and which tend to be working against you?

<table>
<thead>
<tr>
<th>Group</th>
<th>Working against me</th>
<th>Working for me</th>
</tr>
</thead>
<tbody>
<tr>
<td>My family</td>
<td>5%</td>
<td>72%</td>
</tr>
<tr>
<td>Doctors</td>
<td>5%</td>
<td>67%</td>
</tr>
<tr>
<td>My friends</td>
<td>5%</td>
<td>63%</td>
</tr>
<tr>
<td>Farmers</td>
<td>4%</td>
<td>53%</td>
</tr>
<tr>
<td>Fitness/health clubs</td>
<td>5%</td>
<td>49%</td>
</tr>
<tr>
<td>My “primary” food store</td>
<td>5%</td>
<td>45%</td>
</tr>
<tr>
<td>Drug stores</td>
<td>12%</td>
<td>31%</td>
</tr>
<tr>
<td>Health insurance companies</td>
<td>24%</td>
<td>31%</td>
</tr>
<tr>
<td>Food stores in general</td>
<td>11%</td>
<td>29%</td>
</tr>
<tr>
<td>Local restaurants</td>
<td>15%</td>
<td>27%</td>
</tr>
<tr>
<td>Government institutions</td>
<td>27%</td>
<td>17%</td>
</tr>
<tr>
<td>Celebrity chefs</td>
<td>13%</td>
<td>16%</td>
</tr>
<tr>
<td>The news media</td>
<td>23%</td>
<td>13%</td>
</tr>
<tr>
<td>Food manufacturers</td>
<td>33%</td>
<td>13%</td>
</tr>
<tr>
<td>The entertainment industry</td>
<td>31%</td>
<td>9%</td>
</tr>
<tr>
<td>Fast food restaurants</td>
<td>53%</td>
<td>9%</td>
</tr>
</tbody>
</table>

The Consumer Landscape

- Changing family makeup and decision making process
- Quest for value = quality, price and assortment
- Multi-channel shopping and channel blurring
- From the 1970s 500 to today’s 5,000 ads per day
- The new path-to-purchase leverages digital, social, mobile media

- Shoppers are more diverse than ever
- ...with increasingly varied needs
- ...in a fragmenting retail landscape
- ...with dramatically more complex media stimuli
- ...requiring personalization

- Increasing ethnic diversity among US shoppers
- Importance of convenience and shopping experience
- eCommerce replacing brick & mortar with new business models (home delivery, click and pickup)
- Increasing shift in mobile - $105B in ad spend by 2020 on mobile platforms alone
- A tailored shopping experience including available product mix and availability plus specialized offers

Source: IRI: The Connected Consumer
So, how is the “new consumer” changing the retail landscape?

“Revolution” isn’t hyperbole – technology and the new consumer are likely to create a retail environment that looks very different from today’s.
FMI’s CEO Laid Down a Challenge to Our Industry – Rethink How You See Competition

I would humbly suggest we…consider upgrading and modernizing our concept of competition, because I fear that if some or all of us in this room consider those sitting around us as our primary competition, we’re engaging in an outdated mode of thinking. I believe our primary threat lies elsewhere.

I would submit that restaurants, online, and mail order kits are grabbing more shares of the 14 meals and 14 to 21 snacking occasions a week than your traditional supermarket competition is. Consumers do not make distinctions between foodservice and retail. They simply want their desire for their next meal to be met.

And if we don’t compete well with these alternative venues and emerging channels, the slice of the pie the traditional food retailer competes for will just keep getting smaller.
A Key Component of Succeeding in an Omnichannel Environment is Building Successful Digital Engagement

Six Keys for Online Success

1. Trust
2. Value
3. Experience
4. Assortment
5. Convenience
6. Personalization

# Online Sales: A Deeper Dive

Online Food and Beverage Sales Could Reach $100 Billion by 2025

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Online Sales</th>
<th>% of Retail Sales</th>
<th>Grocery Store EQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$20.5 Billion</td>
<td>4.29%</td>
<td>764 Stores</td>
</tr>
<tr>
<td>2025 Conservative</td>
<td>$44.6 Billion</td>
<td>8.51%</td>
<td>1,659 Stores</td>
</tr>
<tr>
<td>2025 Moderate</td>
<td>$72.6 Billion</td>
<td>13.8%</td>
<td>2,702 Stores</td>
</tr>
<tr>
<td>2025 Aggressive</td>
<td>$103 billion</td>
<td>19.7%</td>
<td>3,844 Stores</td>
</tr>
</tbody>
</table>

Five Key Trends Driving the Move Online:
This is Not the End of Brick and Mortar

- Consumers are already shopping for groceries across channels and this will accelerate.

- Large-volume center store categories will migrate online.

- Retailers and manufacturers are experimenting to find their way online.

- Grocery will come online faster than other industries.

- Younger, newer and more digitally engaged shoppers will adopt new technologies faster.

Source: FMI & Nielsen, The Digitally Engaged Food Shopper, 2017
Retailers Are Innovating to Compete Online, But Challenges Remain

- **Direct to Consumer Sales**
  - Requires a Significant Investment in Distribution Networks and/or Supply Chain Partnerships
  - Shipping Direct to Consumers Profitably is Challenging Even for Established E-Retailers

- **Home Delivery**
  - Creates Personnel Challenges – Who Will Pick, Pack and Deliver an Order
  - Requires Consumers to Be Home and Threatens the “Convenience Factor”
  - Creates New Cost Center With No Guarantee of Overall Sales Increase

- **Click and Collect**
  - Tough Balancing Act Between Consumer Needs and Employee Training and Expectations
  - New Cost Center
  - Will Consumers Pay a Premium?

Source: FMI & Nielsen, The Digitally Engaged Food Shopper, 2017
Even Online, Consumers Will Demand “Value” and “Values”

Transparency = Loyalty

56%

Of Consumers Say They Would Very Likely Remain Loyal to a Brand for Life If That Brand Offers Complete Transparency

Source: Label Insight
Consumer Information Transparency Initiative

Tomorrow Consumers will know it as smartlabel™
Thank You

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