FMI/ACNielsen Study: Winning Strategies for Your Most Important Shoppers

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Overview/Project Objectives

The Consumer Market Research Committee of the Food Marketing Institute requested that ACNielsen "conduct a landmark research study of U.S. households and how they shop for food. This study is expected to create a basic benchmarking tool regarding consumer shopping behavior and attitudes".

As the title suggests, this study is about identifying winning strategies for a retailer's most important shoppers. Today, manufacturers like Coca-Cola, General Mills, Kraft, Procter & Gamble, and Unilever leverage ACNielsen Homescan consumer insights to generate top shopper/most valuable shopper segmentation schemes for their most important retail customers. Those manufacturers leverage the consumer insights from those segmentation schemes to recommend consumer-centric strategies and tactics for their retailer partners.

Whether you refer to your shoppers as shoppers, consumers, customers, or guests, this study will illustrate examples of how retailers can leverage both behavioral and attitudinal insights to uncover opportunities to differentiate their offering and create competitive advantage.

The objectives of the project were to profile U.S Grocery retail shopper segments by:

1. Examining how shopping behavior differs across segments and how demographics and attitudes impact where and how consumers shop.
2. Detailing the competitive arena for the retail shopper segments to show the mix of retail channels where segment shoppers also shop.
3. Identifying the departments, categories and services that can be leveraged to appeal to the unique needs of retail shopper segments.

Executives Insights

Grocery Trip Erosion Continues: Although the Grocery channel has a distinct advantage over other channels in the area of shopping frequency, trips to this channel have been on the decline for several years. With rapid store expansion, Dollar Stores, Supercenters, and Warehouse Clubs continue to post increases in the size of their shopper bases. As these retail channels become established, expect to see increases in shopping trips to these three channels. The Grocery channel maintains a commanding share position in food categories and has strong share positions in health & beauty and non-food categories. However, Drug Stores and Wal-Mart are driving year-to-year sales growth. Other retailers, like Club and Dollar, have been leveraging the frequency power of fast moving consumer-packaged-goods to drive their store traffic, build basket rings and nibble away at trips that might otherwise go to the Grocery channel. Now, the same is true for retailers in other channels (e.g., Office Supply Stores, Hardware/Home Improvement, and even Department Stores (i.e., Sears), etc.

Shopper Focus is a must: Because of differences in shopping behavior, category buying and demographic composition, the industry must stop treating all consumers alike. Retailers need to look at life stage marketing, as household composition is a key contributor to channel shopping and category buying dynamics. Hi/Lo, EDLP, and Specialty Grocery shopper segments do exhibit different demographic strengths & weaknesses. Also, assortment decisions, feature ads and frequent shopper promotions need to be targeted against shopper segments as shoppers do have different shopping and buying habits & practices.

Cross-Channel Shopping Opportunities: In terms of competitive interaction, Grocery stores have high interaction with the Drug channel – continued opportunity for expanded Rx offerings. The Club channel is an important channel for top-spend Specialty Grocery shoppers. How about maximizing the capture of perimeter and center store department purchases that consumers don't want to buy in large quantities in the Club channel or consider periodic "club pack" offerings? High interaction with Specialty Retail channels – store-within-a-store concept opportunities or consider joint promotions/programs with Specialty Retailers (like Electronics, Office Supply, Book Stores, Pet & Hardware/Home Improvement) to keep those trips from going to a competitive Mass or Club retailer.

Trip Capture Opportunity: The Grocery channel has a significant advantage in terms of the number of shopping trips that consumers make to the channel. However, this advantage continues to erode. We will see that top-spend Hi/Lo Grocery shoppers exhibit high trip conversion (in total and by department & category) versus top-spend Supercenter and the other top-spend Grocery format shoppers. Still, there is a lot of opportunity for trip capture across all three Grocery formats. Opportunities to leverage food & non-food departments and categories to enhance trip capture and also drive larger shopping baskets.

Attitudes Matter: Our analysis shows that behavioral measures are much stronger drivers in determining where households fall within retail channel shopper segments. However, examination of attitudes within shopper groups does provide insight into the importance that consumers place on where and why they shop where they do. Retailers should use the "attitudinal" insights to confirm or re-evaluate what they want their stores to say to their shoppers.

Food First – Perform on the Perimeter: The importance of food in driving shopping behavior and attitudes is paramount, but satisfaction with Grocery perimeter departments is not much different than satisfaction levels within Supercenters. Home cooking and cooking from scratch resonates with top-spend Specialty Grocery shoppers, but is less important to Hi/Lo and EDLP Grocers. Weekly ads and frequent shopper promotions do provide a point of differentiation, but these also add costs that most EDLP retailers usually don't have!

Differentiate, but don't forget price value: The price value and 1-stop shopping positioning with the Supercenter format fit well with what top-spend Supercenter shoppers are looking for, but the wide assortment that the Grocery channel offers today is not high on their importance scale. Very high satisfaction levels among top-spend Grocery shoppers with various in-store services offerings. However, we found very low importance levels for potential new service offerings. It is extremely important that Grocery retailers understand "what they want to be known for among their shoppers." Differentiation is more important than ever!

Research Design

Data Source: The balance of this paper illustrates the kinds of retail channel information that can be assembled to help retailers and manufacturers develop winning strategies. The primary data source used for this study was the ACNielsen Homescan Consumer Panel. The panel provides longitudinal buying and shopping patterns from a sample of U.S. households. The panel consists of 91,500 households and the sample base is expanding to 125,000 households in October of 2005.

Panelists are equipped with in-home scanning devices to record and transmit their shopping trips from any outlet. Panelists provide us details on both household and individual member demographics. Additionally, panelists periodically respond to traditional custom research surveys such that we can integrate behaviors and attitudes in our analytics.

Much of what you will see in this study can also be applied at the specific retail account-level. Given that our primary client base consists of packaged-goods manufacturers, this analysis is focused on channels that are most important to those sales (i.e., Grocery, Drugstores, Mass Merchandisers, Supercenters, Dollar Stores, Warehouse Clubs, and Convenience/Gas). However, we can also explore information for alternative channels like Hardware/Home Improvement, Electronics, Pet Stores, etc.

The Supercenter channel is defined as Wal-Mart Supercenter, Super Kmart, and Super Target. Although other retailers (like Meijer, Fred Meyer, Biggs, etc.) have some similar formats, our traditional definition of Supercenters only includes the three retailers with a discount store heritage.

Please note that the ACNielsen Homescan panel captures household-level shopping and purchase behavior. Within the Warehouse Club channel this means that we do not measure purchases by businesses or organizations for their use/consumption or for re-sale. Also, within the Convenience/Gas channel, behavior is understated because of the high level of product purchases for immediate consumption and due to the fact that we do not measure gasoline only purchasing. Nevertheless, the information that is captured provides the best source to compare relative differences in shopping and buying behavior.

We also extracted information from the ACNielsen Strategic Planner service (retail-point-of-sale-based volume/share data) and the ACNielsen Wal-Mart Channel service (fueled by Homescan panel purchases at Wal-Mart). We also examined channel and retailer specific store counts that have been assembled by our ACNielsen Trade Dimensions' TDLinx offering.

Purchase information captured: Here is the information that we capture via our in-home scanning device. On each shopping trip (no matter who in the household is shopping) we capture:

- Date of purchase
- Age & sex of shopper
- Retailer/channel where shopped
- Frequent shopper card use*
- For each upc (number of units purchased; price paid (for non ScanTrack stores only); deals used (i.e., manufacturer and store coupons, store deals, and other deals).
- Source of coupon (received at home; at cash register; elsewhere in the store)*
- Total amount spent on the shopping trip
- Method of payment (cash, check, credit card)*

* From a sub-set of panelists

Attitudinal information captured: To compliment the behavioral data that we capture with the Homescan panel, we fielded an extensive survey for this project. The survey was fielded among all active Homescan panelists in the spring and summer of 2004.

The first 38 questions were centered on the capture of:

1. How U.S. households shop for groceries by determining if consumers find shopping a pleasurable experience or a chore and also identifying whether consumers shop multiple stores or a limited set of stores.
2. The importance of store characteristics in store selection (in terms of size of store, assortment, perimeter departments).
3. The importance that price & promotions play in how consumers shop (feature ads, frequent shopper cards, every-day-low-pricing)
4. Meal preparation preferences (preference for home cooked meals versus ready-to-eat prepared meals versus away-from-home meals).
5. Overall satisfaction with the services offered in the store shopped most often for groceries

Panelists were then asked to rank the most importance attributes for making a decision or where to shop for groceries. Respondents were asked to select the top three selections across seventeen attributes ranging from Fresh Meat, Good Service, Low Price, and Convenient Location. For the store where respondents shop most often for groceries, they were asked to indicate how satisfied they are with that store's delivery against the seventeen attributes.

Panelists were also asked to identify service offerings in the store that they shop most often for groceries. Twenty various services, including banking/ATM, coffee shop, etc. were included in the survey. For services not available, respondents were asked to select the top three services that they would like to be offered in the Grocery Store shopped most often. Once survey responses were tabulated, results were processed against "traditional" top, medium and light spend shopper groups. This was produced for:

-The Grocery channel and hi/lo, edlp and specialty Grocers (see Appendix for definitions of retailers used for each)
-The Mass Supercenter (Kmart, Target and Wal-Mart) retail segments

Within the Grocery channel we had 34,804 total households respond to the survey and qualify as good purchase reporters for the annual timeframe used for this analysis. We had 30,952 households who completed the survey and were Hi/Lo Grocery shoppers; 17,346 EDLP Grocery shoppers; 3,955 Specialty Grocery shoppers. And, we had 19,123 Mass Supercenter shoppers who completed the survey

Consumers Do As They Say

A significant advantage that Homescan attitudinal capture provides is the ability to quantify how behavior differs across attitudinal groups and vice versa. When we compare survey results to actual shopping behavior we see that consumers "do as they say". For example, households who like 1-stop shopping make fewer all-outlet shopping trips. The same is true for households who shop in 1 or 2 stores for their groceries and for households who don't have time to shop multiple stores. Conversely, households who like shopping in a wide variety of stores make many all-outlet shopping trips. Similar results were found when we validated attitudes and behaviors related to deal purchasing and private label buying.

Attitudes Towards Grocery Shopping Drive Differences in Shopping Trips

Annual All-Outlet Trips per shopping household

	Like One-Stop Shopping	Shop in 1 or 2 Stores for Groceries	Don't Have Time to Shop Multiple Stores	Shop a Wide Variety of Stores
Agree Strongly	182	184	165	236
Agree Somewhat	194	189	180	217
Neither Agree or Disagree	213	205	196	199
Disagree Somewhat	224	227	215	185
Disagree Strongly	234	220	232	176

52-weeks ending 6/26/04

Key Findings

Channel Blurring Update

U.S. consumers have a large number of retail channels from which to choose and they clearly take advantage of their options. This is demonstrated in part by the size of the shopper bases within Grocery, Mass Merch, and Drug channels. Shopper penetration levels within these three channels are at or near 100% of U.S. households - providing excellent opportunities for retailers in each of these channels to increase their share of shopping trips and basket rings made by their "captive" shoppers.

Retail channels that have been adding new stores are having a strong impact on U.S. household shopper penetration. Supercenters, comprised of Kmart, Target and Wal-Mart, are now shopped by 54% of households. The Dollar Store channel, comprised of retailers like Family Dollar, Dollar General, Dollar Tree, Fred's, and 99 Cents Only, continues to expand channel shopper bases via new store openings and are now shopped by 67% of households.

While the Grocery channel is the most popular and frequented retail channel, the channel continues to see trip erosion as other channels have leveraged the power of fast moving consumer goods to impact their store traffic, shopping trips and basket rings. The Grocery Channel has a significant advantage over other channels in terms of shopping frequency. However, as seen in prior years, shopping frequency within this channel is on the decline. By 2004, the average household made 69 trips to the Grocery channel – six fewer trips versus 2001. With conversion of some Mass stores to Supercenters and the closure of certain Mass chains, shopping frequency within the Mass channel is on the decline.

Although new store openings may be holding down shopping frequency in Supercenters, average shopping frequency within this channel is relatively low, but growing. This may also be driven by the distance with which rural shoppers must travel to shop in Wal-Mart Supercenters. Shopping frequency in the other channels remained fairly stable over the past three years. With the rapid expansion of new store openings in the Dollar Store segment, overall shopping frequency is being understated too.

We segmented Grocery retailers by merchandising focus (i.e., Hi/Lo, EDLP, and Specialty) and we then segmented their shoppers <u>into three equal buckets</u> (based on their annual spending in these Grocery stores) and examined differences in shopping behavior, consumer attitudes, demographics, cross shopping patterns, etc.

Hi/Lo Grocery retailers are shopped by 90% of U.S. households – yielding 30% of U.S. households in each of the three shopper segments. From these data we see that top-spend shopper focus by Grocery Hi/Lo retailers is a must. This is not to say that Hi/Lo Grocery retailers should ignore their lighter-spending shoppers as shopper retention and new shopper acquisition are also important. However, the top-spend shoppers require special attention because of the fact that they shop more frequently and because they spend more per shopping trip.

While EDLP and Specialty Grocery Stores have a much smaller shopper base than the Hi/Lo Grocery segment, we see that top spending households in all three segments drive shopping behavior. And, the top-spend EDLP and Specialty Grocery shoppers show an even stronger concentration around shopping trip to those formats. That is, shopping trips by top-spend Hi/Lo shoppers didn't quite double the number of shopping trips of their medium-spend counterparts. However, trips by top-spend EDLP shoppers were almost 3 times as great as medium-spend shoppers and trips by top-spend Specialty were almost 5 times greater than medium-spend shoppers.

Top-Spend Shopper Focus is a must!

Grocery Shoppers	% Household Penetration	Trips per Shopping Household	$ per Shopping Trip
Hi/Lo - Top	30	79	43
Hi/Lo - Med	30	48	25
Hi/Lo - Low	30	15	17
EDLP - Top	17	54	42
EDLP - Med	17	21	23
EDLP - Low	17	5	16
Specialty - Top	3	23	33
Specialty - Med	3	5	20
Specialty - Low	3	2	12

52-weeks ending 6/26/04

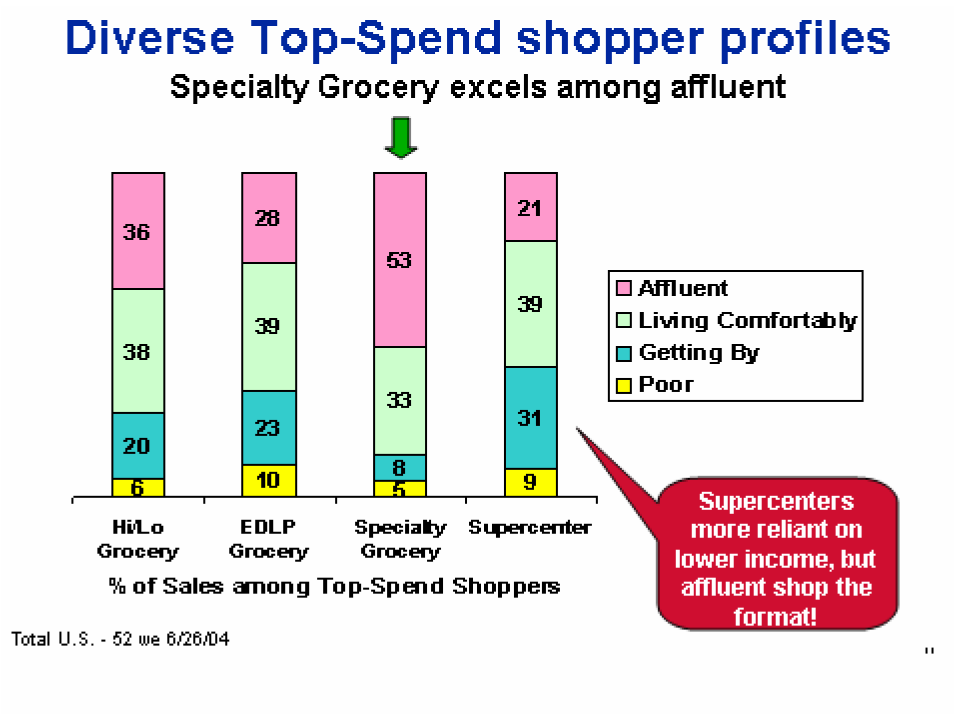
Differences … d for focus – they shop more frequently and they spend more per shopping trip. So, questions that retailers in these formats should ask are:

-Who are these top-spend shoppers?
-Where do they shop?
-What do they buy?
-What are their behaviors?
-What are their attitudes?
-And, finally, how can they be reached?

Who are the top-spend shoppers?

When we examine the demographic profiles of top-spend shoppers across retail formats we see differences. There is a more diverse top-spend shopper profile in terms of household affluence. Specialty Grocery retailers perform better among the affluent households. EDLP Grocery retailers perform better among poor and getting by households. Supercenters are more reliant on lower income households, but affluent households shop the format too.

We also see other similarities and differences when we compare and contrast the importance of household size, age of female and household life stages.



Where do top-spend shoppers shop?

The beauty of frequent shopper card data is that it allows deep drill downs to understand the "in-chain" shopping among a very large number of households. However, what keeps these card data from becoming "loyalty card" data is that they do not capture "out-of-chain" shopping behavior.

Homescan Consumer Panel data can be leveraged to fill the white space with respect to identifying a retailer's competitive frame and allow retailers to better understand risks and opportunities as it relates to what other retail channels their shoppers are shopping. First, we will examine cross-shopping patterns within traditional retail channels that carry consumer-packaged-goods. We will then examine cross-shopping patterns within alternative retail channels.

All three top-spend Grocery retail segments make more shopping trips than do top-spend Supercenter shoppers. The higher "per trip" spending found in Supercenters drives lower overall shopping frequency for top-spend Supercenter shoppers. Top-spend Supercenter shoppers offset Grocery trips with a lot of trips to the Mass channel and to a Supercenter. They also make a higher relative number of trips to the Dollar Store channel. Periodic dollar-merchandise promotions and/or the addition of dollar-merchandise sections are appropriate for Supercenter retailers to pursue. However, other ACNielsen Homescan research shows that Dollar Stores are immune to Supercenter expansion. Both channels compete on price value, but Supercenters don't offer the "in and out" shopping convenience that Dollar Stores provide their shoppers.

There is high interaction with the Drug channel for all three Grocery formats – continued opportunity for expanded Rx offerings within Grocery retailers. The Club channel is an important channel for top-spend Specialty Grocery shoppers. How about maximizing the capture of perimeter or center store department purchases that consumers don't want to buy in large quantities in the Club channel or consider periodic "club pack" offerings? Finally, top-spend EDLP shoppers make relatively more trips to Mass, Supercenter and Dollar Store retailers – opportunity for expanded seasonal item focus?

When we examine shopping trips to alternative retail channels, we see that top-spend Grocery shoppers make more trips to alternative retail channels. Grocery retailers need to turn this into an opportunity by adding store-within-a-store concepts and/or consider joint promotions/programs
with Specialty Retailers (like Electronics, Office Supply, Book Stores, Pet & Hardware/Home Improvement) to keep those trips from going to Mass retailers.

What departments do top-spend shoppers buy?

A lot is being discussed these days about the impact of Supercenter rollout on Grocery shopping trips. From a Homescan analysis on the Wal-Mart shopper, we know that as households become higher spenders within Wal-Mart, they will make fewer trips to the Grocery channel. When we examine the extent to which top-spend retail segment shoppers make trips in and out of a specific retail segment, we see plenty of opportunities for trip capture. This is particularly true for the "mainstream" Hi/Lo Grocery retailers who have high store count and many convenient locations throughout the U.S. This also suggests opportunities to maximize trip spending (i.e., when shoppers are in your stores, get them to buy the categories that you want them to buy).

We see that top-spend Hi/Lo Grocery shoppers make almost 220 trips across all outlets and that about 80 of those trips are to a Hi/Lo Grocery retailer. This is a much higher rate of trip capture than seen for Supercenters and for the other two primary Grocery formats. When we examine differences by department, we see that top-spend Hi/Lo & Specialty Grocery shoppers make more fresh trips and again we note a very high relative trip conversion for Hi/Lo Grocery. No doubt influenced by Wal-Mart’s focus on packaged fresh offerings, top-spend Supercenter shoppers make more Fresh Food trips to other retailers.

In terms of department-level shopping behavior, top-spend Hi/Lo Grocery shoppers are the only shopper group to make more Dry Grocery department trips within their retail segment. Top-spend Supercenter shoppers make almost twice as many Dry Grocery trips outside of Supercenters. Looks like Hi/Lo Grocery retailers can leverage the Dry Grocery department to minimize further trip decay.

Top-Spend Hi/Lo Grocery shoppers make more Dry Grocery trips within their retail segment

Leverage Dept to minimize further trip decay

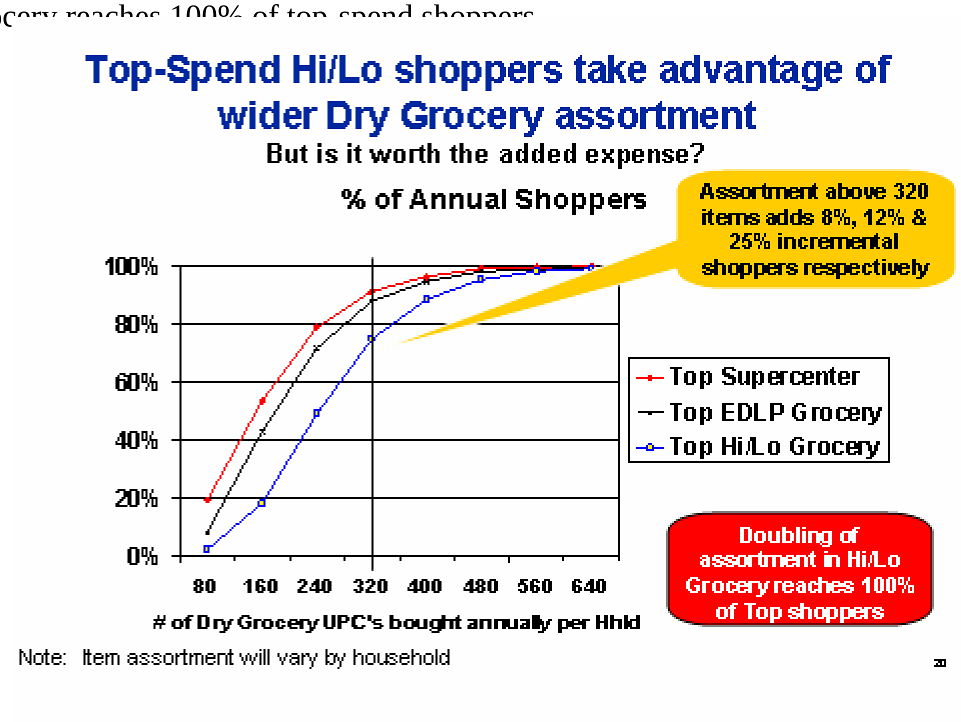
Trips per shopping household

	Top Supercenter	Top Hi/Lo	Top EDLP	Top Specialty
Dry Grocery Dept Trips	110	119	118	107
Trips in	41	68	48	14
Trips out	70	51	71	93

Top-Spend Supercenter shoppers make more Dry Grocery Dept trips to other retailers

UPC-coded products; Total U.S. 52 we 6/26/04

While top-spend Hi/Lo Grocery shoppers make more Dry Grocery trips within the retail segment, they are doing so with a wider assortment than what is available to top-spend Supercenter and top-spend EDLP Grocery shoppers. Annually, 92% of top-spend Supercenter shoppers buy 320 Dry Grocery items or less within a Supercenter. That compares to 88% of top-spend EDLP shoppers and just 75% of top-spend Hi/Lo shoppers. This means that assortment above 320 items yields 8% additional top-spend Supercenter shoppers, 12% top-spend EDLP Grocery shoppers, and 25% top-spend Hi/Lo Grocery shoppers. Or, doubling of assortment in Hi/Lo Grocery reaches 100% of top-spend shoppers.



Note: the composition of UPC-level buying across households will be different – meaning that assortment optimization must be achieved with a higher level of assortment than depicted in this graph.

While expanded variety is strength for Hi/Lo Grocery retailers, one must question whether the added assortment is worth the added expense? In a time when retailers are looking for ways to reduce costs to respond to competitive price pressure, is there an opportunity for reduced assortment in some departments and categories? This would enable Grocers to offer more attractive prices for the growing number of value-conscious consumers. It could also help Grocery retailers free up shelf space for assortment that their shoppers want and that other retailers can't easily replicate or deliver as well.

The frozen department is another one that may offer Hi/Lo retailers an opportunity to minimize trip decay. The same is true for the Dairy department, the Deli department, and the Fresh Meat department. And packaged produce performs better in Hi/Lo and EDLP top-spend Grocery shoppers. Is there an opportunity for Grocery Specialty retailers to sell more packaged fresh produce? These are consumers who have a high preference for total fresh, but can they shift emphasis on upc-coded versus random-weight fresh?

Top-spend Supercenter & top-spend Hi/Lo Grocery shoppers leverage those retailers for Non-Food department trips. But lower conversion rates within Hi/Lo Grocery versus other departments – is there an opportunity to focus on certain Non-Food categories? Supercenters do a much better job of converting shoppers to make General Merchandise trips. Is there an opportunity for better focus within Grocery retailers? The same can be said for the Health & Beauty Department – an opportunity for better Grocery focus?

Top Supercenter & Top Hi/Lo Grocery shoppers leverage those retail segments for Health & Beauty Department trips

An opportunity for better Grocery focus?

Trips per shopping household

	Top Supercenter	Top Hi/Lo	Top EDLP	Top Specialty
Health & Beauty Dept Trips	42	42	41	36
Trips in	23	17	12	5
Trips out	20	26	30	34

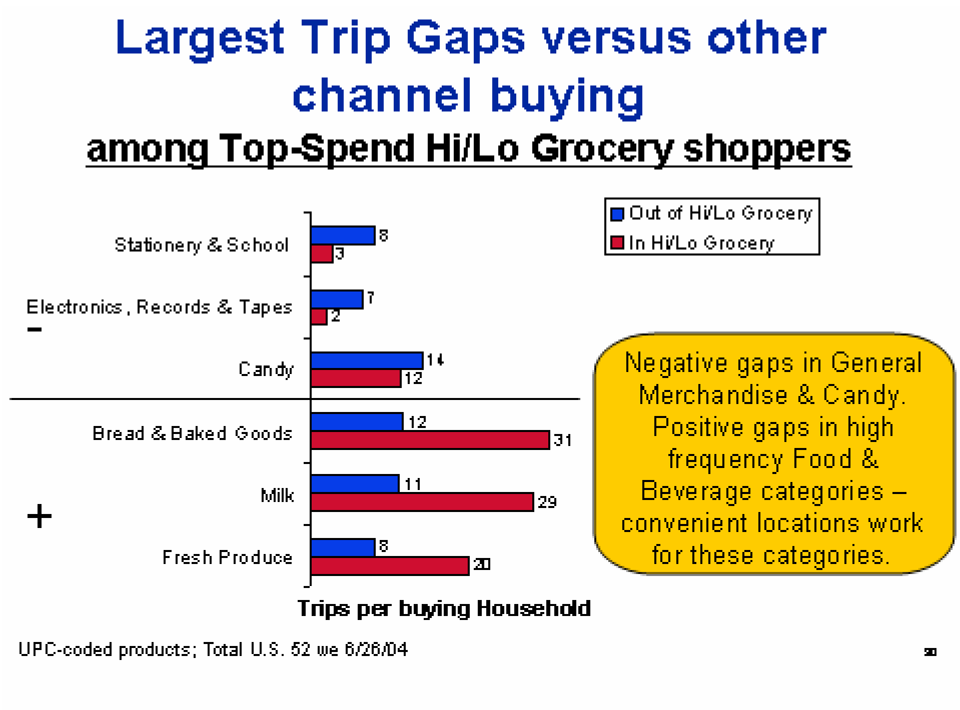
UPC-coded products; Total U.S. 52 we 6/26/04

What categories do top-spend shoppers buy?

We see clear differences in department-level buying across the segments. How about differences at the category level? To do this we examined the categories that exhibited the largest negative and positive category trip gaps versus other channels (among the top-spend shoppers). Large negative gaps represent categories where top-spend shoppers made more trips on those categories outside of their format. For top-spend Supercenter, these were high frequency categories such as bread & baked goods, milk, fresh produce, candy and snacks. Apparently one stop shopping in a big box isn't always convenient!

The categories that had the largest positive gaps among top-spend Supercenter shoppers were health & beauty aids, products for babies, and pet care. These are all categories that Mass-Merchandisers have leveraged their value pricing and focus on larger sizes to capture a strong all-out share position.

For top-spend HI/Lo shoppers, the largest negative gaps - meaning that more trips were made on categories in other retailers than in a Hi/Lo Grocery store - were in General Merchandise and Candy. Retailers in this segment need to decide in which of these categories they may want to go to battle with other retail channels to capture lost trips. The categories that had the largest positive gaps among top-spend Hi/Lo shoppers were high frequency food & beverage categories like bread & baked goods, milk, fresh produce, cheese, etc. These were the same categories that top-spend Supercenter shoppers are more apt to buy outside of the Supercenter format. Grocers obviously benefit from their numerous convenient locations.



What are the attitudes of top-spend shoppers?

Okay, we've seen considerable differences in how retailer segment shoppers shop; their demographic skews; their department-level buying; and, their category buying. Now let us examine differences in their attitudes towards Grocery shopping.

As mentioned, we fielded survey among all active Homescan panelists in the spring and summer of 2004. The first 38 questions were centered on the capture of:

-How U.S. households shop for groceries by determining if consumers find shopping a pleasurable experience or a chore and also identifying whether consumers shop multiple stores or a limited set of stores
-The importance of store characteristics in store selection (in terms of size of store, assortment, perimeter departments)
-The importance that price & promotions play in how consumers shop (feature ads, frequent shopper cards, every-day-low-pricing)
-Meal preparation preferences (preference for home cooked versus prepared versus away-from-home consumption)
-Overall satisfaction with the services offered in the store shopped most often for groceries

We found that format-only shopping attitudes don't yield variation to drive differentiation opportunities. Among the top ten ranked statements where shoppers strongly agreed that they "stock-up on bargains" to where shoppers strongly agreed that they "prefer a store with frequent shopper program", only six percentage points separated the number 1 ranked response and the number 2 ranked response. However, just like we saw differences in who and how U.S. households shop Grocery formats, we see differences in their preferences for store size & store format; use of store ads and preferences for frequent shopper programs; and, preferences for scratch versus quick meal solutions, etc. This variation across the formats yields differentiation opportunities for retailers. For example, retailer ads and frequent shopper programs provide Hi/Lo Grocery Retailers with points of differentiation as top-spend shoppers in the format exhibit much stronger scores relative to other top-spend format shoppers

EDLP Grocery shoppers only differentiate on budget worries – price is key point of differentiation. As such, Aldi and Save-A-Lot are spot on in terms of their no frills, deep-discount price approach to retailing. Clearly top-spend Specialty Grocery shoppers are very food focused as they have higher scores around preferences for home cooked meals and meals prepared from scratch. And, healthy foods are very important to these shoppers – 55% of top-spend Specialty Grocery shoppers like stores that offer healthy foods. Price/promotions appear to be less important to these shoppers and low satisfaction with services offered may suggest an opportunity for Specialty Grocers to offer expanded services.

Top-spend Supercenter shoppers like larger stores that offer 1-stop shopping. Home cooking and scratch cooking are less important relative to wanting quick meal solutions. And, these are households who must budget their spending.

1-stop shopping, large stores, budget concerns, quick meals provide Supercenters w/pts of differentiation

Ranked by Top Hi/Lo Grocery Shoppers

Differentiation Opportunities

% Households agreeing strongly with:	Top Hi/Lo Grocery	Top EDLP Grocery	Top Specialty Grocery	Top Supercenter
Stock-up on Bargains	33	32	31	30
Use Ads for Planning	38	28	24	20
Prefer Home Cooking	30	28	34	27
Like 1-stop Shopping	30	33	25	39
Satisfied w/Services Offered	30	28	28	28
Like Store that Offers Healthy Foods	28	28	55	28
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

The second part of our survey asked panelists to rank the most important attributes for making a decision for where to shop for groceries. Respondents were asked to select the top 3 attributes across 17 attributes ranging from fresh meat, good service, low prices, and safe parking lot. For the store where respondents shop most often for groceries, respondents were then asked to indicate how satisfied they were with that store's delivery against the 17 attributes.

This next chart summarizes the most important attributes (in rank order) in the selection of a Grocery store among top-spend Grocery shoppers (across the combination of all three Grocery retail segments). You will note that areas where Grocery retailers have focus (i.e., fresh produce, fresh meat, weekly specials, convenient locations, and wide selection) are at the top of the list. However, good value and low prices, areas where Grocery retailer focus is mixed, are number 2 and 4 in terms of rank importance.

Unfortunately, the areas where Grocery retailers have focus aren't driving strong levels of satisfaction (within the Grocery store shopped most often) – the one exception is convenient location where 52% of top-spend Grocery shoppers are extremely satisfied with the location of their Grocery store shopped most often.

Satisfaction with good value and low prices are low - this obviously poses a threat to Grocery retailers as price/value formats become more convenient. So, a couple of routes that Grocery retailers might take from this:

1. Grocery retailers need to over-deliver against their perimeter departments and take advantage of their convenient locations.
2. Grocers must stress the importance of good value and low pricing in merchandising & advertising themes (e.g., Kroger's ad campaign around "Right Store, Right Price").
3. Grocers should maintain their wide offering of product categories, but selectively reduce category assortment to enable more competitive pricing.

Areas of strength aren't driving satisfaction & satisfaction with price/value is very low

Threat as price/value formats become more convenient!

% Responses from Top Grocery Shoppers	Attributes most Important in Grocery Store Selection	Extreme Satisfaction w/Attributes
Fresh Produce	45	33
Good Value	45	22
Fresh Meat	43	30

In the final section of the survey, respondents were asked to indicate if the store where they shop most often offers 20 various services including banking/ATM, coffee shop, etc. For the services not available, respondents were then asked to select the top 3 services that they would like offered in their store.

Here is a ranking of the services most available to top-spend Hi/Lo Grocery store shoppers (in the Grocery store where they shop most often) and a comparison to the results from the other top-spend shopper segments. Service availability varies by format with Hi/Lo Grocery and Supercenters receiving the highest availability scores across the most services. However, scores for many of the services were at levels of 60% of shoppers or lower – meaning that there is room for service expansion across all four formats.

Service availability varies by format, but room for expansion

Services Most Available

Top Scores

% Responses from:	Top Hi/Lo Grocery	Top EDLP Grocery	Top Specialty Grocery	Top Supercenter
Prepared Food/Meals	88	82	86	83
Fresh Flower Department	84	72	81	70
Banking/ATM	77	69	73	75
In-Store Pharmacist	73	62	56	81
Longer Store Hours	62	66	61	78
Natural Organic Food Section	59	46	66	37
In-Store Film Development	56	54	48	72
Wine/Liquor Department	55	59	68	46
In-Store Samples	51	52	44	56
Bulk Candy & Nut Section	44	49	48	32
Coffee Shop	32	29	38	26
Self Check-Out Lanes	42	39	31	40
Video Rental	31	21	24	21

Ranked within Top Hi/Lo Grocery Shoppers

Among the service most requested, overall interest (as measured by the percent of respondents requesting that the services be added to their favorite Grocery store) varied by format and most services did not appeal to large percentages of the population. However, these services do provide retailers with points of differentiation or opportunities to improve shopper satisfaction. For example, self-checkout lanes look like an opportunity for EDLP, Specialty and Supercenter shoppers. However, only about 1/5th of the top spenders in these formats requested the addition of these checkout lanes.

Interest in additional services varies by format - most do not appeal to large percentages of shoppers

Services Most Requested

Differentiation & Shopper Satisfaction Opportunities

% Responses from:	Top Hi/Lo Grocery	Top EDLP Grocery	Top Specialty Grocery	Top Supercenter
Self Check-Out Lanes	16	18	20	19
In-Store Samples	14	13	15	11
Coffee Shop	13	11	9	12
On-Premise Gas Pumps	13	10	9	14
Video Rental	12	12	6	15
Drive Thru Pharmacy	11	11	5	15
Longer Store Hours	11	11	12	8
In-Store Cooking Lessons	11	11	11	10
Pick-Up/Deliver to Car Service	10	10	6	13
Dry Cleaning	10	9	6	11
Bulk Candy & Nut Section	9	8	7	12

Ranked within Top Hi/Lo Grocery Shoppers

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become more convenient, trip capture will continue, but competition will be more intense in larger markets. Consumer attitudes provide points of differentiation, but actions (behavior) speak louder in how shoppers segment. Focus against top-spend retail segment shoppers is paramount.

As a result, differentiation versus competitive retailers is more important than ever. However, value pricing is here to stay! What departments, categories, and/or items is value pricing required so that retailers can differentiate & maintain trip capture & price premium on points of differentiation. What categories can retailers reduce assortment so that they can focus on categories or services that their shoppers want & that other retailers can't easily replicate or deliver as well?

We saw that top-spend Grocery shoppers are satisfied with services offered & other services requested don't appeal to large percentages of the population, but they do allow retailer differentiation. Retailers need to talk to their most-valued-shoppers & ask them about the services they would like a retailer to offer. It is extremely important that Grocery retailers leverage their convenient locations & convenient formats. But they can't forget that it sill comes down to execution at store level!

Here are some ideas on how a Hi/Lo Grocery retailer can leverage the learning from this study to respond to consumer centric retail opportunities:

In the area of **store expansion opportunities**, Hi/Lo Grocery retailers have opportunity to add new store count via store acquisition and new store openings in their growth markets.

Top-spend Hi/Lo Grocery shoppers don't show a strong preference for shopping in large stores, so **formats should focus on medium to large Supermarkets, but also look to leverage mini-Supercenters in the right locations.**

In the area of **assortment**, look for opportunities to reduce center store assortment to carry the right items and help you compete on price/value. Look for opportunities to expand natural and organic foods. Expand assortment around entertainment and think about a limited home goods section.

Top-spend Hi/Lo Grocery shoppers like a full range of **services**. Look at opportunities to selectively add Rx departments, coffee shops, on-premise gasoline and in-store cooking lessons.

Top-spend Hi/Lo Grocery shoppers like frequent shopper card programs. Intensify your use of those programs **to target your most valuable shoppers** as well as specialty targets such as ethnic or aging households (both have strong preferences for fresh foods & perimeter offerings).

In terms of **competitive-frame opportunities**, Hi/Lo Grocers should look at store-within-a-store concepts and alliances with Specialty retailers.

Finally, top-spend Hi/Lo Grocery shoppers tells us that frequent shopper cards, feature activities, fresh food, convenience and value-price center-store are the key drivers for why they shop the format. **Those themes should resonate in most, if not all, shopper communications.**

APPENDIX

Hi/Lo Grocery Retailer Definition: 145 retailers

Hi/Lo Grocery Retailer Segments

- A&P
- Abco
- Acme
- Albertsons
- Alpha Beta
- Bashas
- Bel Air Markets
- Bells
- Big Bear
- Big Y
- Brookshire
- Butera
- Buttrey
- C Town Supermarket
- City Market
- Clemens Market
- Consumer IGA
- Consumers Market
- Conte Key Food
- Copps
- County Market
- D & W Food
- D Agostino
- Dahls
- De Moulas
- Delchamps
- Dierbergs
- Dillon
- Dominicks
- Durst Market
- Eagle Food
- Easter Stores
- Edwards Food
- Edwards Super
- Falleys
- Farm Fresh
- Farmer Jack
- Felpausch
- Fiesta Mart
- Finast

Hi/Lo Grocery Retailer Segments

- Food Basics
- Food Carnival/Farm Fresh
- Food Emporium
- Food Lane
- Foodtown
- Fred Meyer
- Frys Food Store
- Gelson/Mayfair
- Genuardi
- Gerbes/Dillons/Sav on
- Gerlands Food
- Giant Eagle - Pittsburgh
- Giant Food - Landover
- Giant Food - Carlisle
- Goodings Super
- Grand Union
- Gregersons Food
- Gristedes
- Hannaford Food
- Harris Teeter
- Heinens
- Hinky Dinky
- Homeland
- Hometown Foods IGA
- Houchens
- Hy Vee
- Hyde Park Coop
- IGA
- Ingles
- Insalaco Markets
- Jerrys
- Jewel
- Jitney Jungle
- Kash N Karry Food
- Key Food
- King Kullen
- King Soopers
- Kings Super
- Kohls
- Kroger

Hi/Lo Grocery Retailer Segments

- Laneco
- Lowes Food
- Mars Super Market
- Martins
- Mayfair
- Minyard
- Motts Shoprite
- Nasch Finch
- Niemann Foods
- Nob Hill
- P & C Food
- Pathmark
- Piggly Wiggly
- Price Chopper
- Publix Super
- Quality Food Centers
- Raleys
- Ralphs
- Randall Foods
- Randalls
- Rays Sentry
- Red Apple
- Regos
- Remkes Market
- Reni Rego Stop N Shop
- Rinis Stop N Shop
- Safeway
- Sav A Center
- Save Mart Stores
- Schnuck Market
- Schweigmann Giant
- Seaway Food
- Sedanos Super
- Sentry Market
- Shaws Super
- Shop & Save
- Shop N Bag
- Shop N Save
- Shoprite
- Skaggs Alpha Beta

Hi/Lo Grocery Retailer Segments

- Smith Food & Drug
- Smiths Market
- Smittys Super
- Star Market
- Sterks
- Stop & Shop
- Stop N Shop
- Super 1 Foods
- Super A Foods
- Super Fresh
- Super G
- Supervalu
- Thriftway
- Tom Thumb
- Top Food/Haggens
- Town & Country
- Treasure Island
- Ukrops
- United Super
- Village Market
- Vons
- Waldbaum
- Weis Market
- Winn Dixie
- Zupans Food Pavillion

EDLP Grocery Retailer Definition: 27 retailers

EDLP Grocery Retailer Segments

- Aldi
- Bi Lo
- Biggs
- Brunos
- Carnival
- Cub Foods
- Food 4 Less
- Food City
- Food Lion
- Foodarama
- HEButt
- Harps Food
- Lucky Stores
- Max Warehouse
- Meijer
- Pak N Save
- Pick N Save
- Rainbow Food
- Redners
- Sack N Save
- Save-A-Lot
- Stater Brothers
- Tops
- Wal-Mart Neighborhood Mkt
- Wegmans
- Winco Foods
- Woodmans Food Markets

Specialty Grocery Retailer Definition: 10 retailers

Specialty Grocery Retailer Segments

- Byerlys
- Central Market
- Dorothy Lane Market
- Larry's Markets
- Lunds
- Magruders
- Scolaris
- Trader Joes
- Whole Foods
- Wild Oats