GM/HBC in the Grocery Channel
A Playbook to Win

John Clevenger, Acosta Strategic Advisors
June, 2016
Across the Store, Grocery Channel Sales Are Forecasted to Grow Only 1%/year

Growth Drivers:
• Population
• Shift to higher ring products

Are there opportunities to do better?

Revenue of Supermarkets & Grocery Stores in the U.S. Retail Industry

Source: Statista.com
GM and HBC Are Large Grocery Opportunities

Share of $ Sales

<table>
<thead>
<tr>
<th>Grocery Channel</th>
<th>All Other Channels</th>
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<tbody>
<tr>
<td>Gen Merch</td>
<td>HBC</td>
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Value of 1 Share Pt

- Gen Merch: $445M
- HBC: $843M

Value of Fair Share

- Gen Merch: $16B
- HBC: $26B

SOURCE: Nielsen Planners Latest 52w/e 07.04.15
Why Now?

Attracts Changing Shopper

Strategic Alignment with Health & Wellness

Key E-Commerce Battleground
Developing a GM/HBC Playbook for Grocery

- Study commissioned by FMI GM/HBC Committee
  - As part of Retail 2020 vision
- Identify winning growth strategies for GM & HBC in Grocery channel
- Project led by Acosta Strategic Advisors
- Comprehensive approach
Shoppers Are Willing to Buy More in Grocery Stores

Would Buy More HBC in Grocery Store If ...

63+%  More Promotions
57+%  Better Selection
44+%  Better Aisle Organization

Top 3 Reasons For Buying at Favorite Outlet

HBC: • Convenience  
     • Customer Service  
     • Carries Brands I Like

GM:  • Convenience  
     • Selection  
     • Store Location

Source: Acosta Shopper Community Survey
GM and HBC Shoppers Are Valuable to Your Stores

GM in Basket: $88
HBC in Basket: $82

Meat in Basket: $77
Produce in Basket: $70
Dairy in Basket: $61
Dry Grocery in Basket: $52

SOURCE: Nielsen Homescan 52w/e 06.27.15
So What Is Getting in the Way?

**Externally**
- Shopper perceptions – price & variety
- Millennials’ tastes

“We’re still trying to solve for the 55-65, but Millennials are the free agents we need to court”

**Internally**
- Organizational focus, priorities, execution, “food-centric” thinking

“It’s a question of space: space in store, space in ads, space in management’s heads.”

SOURCE: Acosta Strategic Advisors (interviews)
The Challenge: How to Increase Conversion of Shoppers Already in Your Stores?

#1 Get on the shopping list

75%+

Shoppers made the decision to shop a HBC or GM category at home

#2 Create disruption in store

Shoppers shop weekly in....

Perimeter >50%

HBC & GM ~ 20%

Source: Acosta Shopper Community Survey
Some Strategies for HBC

Bring traffic to the products: Make HBC a destination

- Increase amount and visibility of promotions
- Regimen-based (oral care, flu season) or thematic promotions instead of manufacturer-centric
- More open fixturing; “You can’t sell beauty products on the same kind of shelves as soup.”
- Other aisle reinvention: signage, education, lighting, thematic
- Pharmacy is a key destination: leverage it
- Emphasize natural and organic products to attract Millennial shoppers
Some Strategies for GM

Bring the products to the traffic: Location and product pairings
- Emphasize categories that pair with food: tabletop, cookware, kitchen gadgets
- Merchandise them with “host” categories: cedar planks with seafood, brownie mix with pans
- Promote more; while lifts are declining across most departments, they are growing in GM

Take advantage of emerging trends and seasonal events
- Zika concerns are spiking demand for insecticides, insect repellants
- Retirement of incandescent bulbs increasing demand for CLF and LED
- Holidays a good time to promote kitchen gadgets
Understand The Online Threat and How to Counter

U.S. Shoppers Buying HBC/OTC Items Online (P6Mo)

- Don't expect change 55%
- Make more 33%
- Make fewer 12%
- Don't expect change 55%

Millennials = 46%
W/Kids = 42%
Males = 37%
HHI $100K+ = 40%

- Satisfy shoppers’ browsing urge in HBC
- Leverage pharmacy as destination
- In GM, focus on impulse and immediate needs

What Are Top Retailers Doing?

The Top 10 most successful GM & HBC Growth retailers...

Promote

Promote more often, both feature and TPR; but they don’t necessarily promote at deeper discounts. It’s more about awareness than price.

Compete

But they are very competitive on price, matching other channels and beating other grocers.

Assortment

Choiceful assortment expansion that appeals to target consumer: e.g., kitchen gadgets, natural cosmetics, tabletop.

Staffing

Invest in staffing, both within category management and in the store for merchandising, education, customer service.

Source: Acosta Strategic Advisors
Today’s Presentation Is the Start of a Broader Education Campaign

In addition to today’s presentation at FMI Connect, there will be:

1. White paper/ HBC & GM Playbook
2. Hosted webinars
3. Regular updates to this study
Panelists

- Jane Novak-Cook
  Procter & Gamble

- Bill Romallino
  Time Inc. Retail

- Colin Stewart
  Acosta Sales & Marketing

- Raymond McCall
  Ahold USA

- Tim Tillia
  American Greetings

- Chris Skyeers
  Wakefern