The Digitally Engaged Food Shopper

Developing your Omnichannel Collaboration Model

January 27, 2018
Setting the Stage of our Three Year Digital Journey

Digitally Engaged Food Shopper Update

Industry’s Digital Readiness

Understanding Transformation Imperatives

Preparing to Win
Setting the Stage on Digital
Framing the Realities of US Retailing in 2018

Opportunity rich, coupled with increasing complexity... unlike the past in any way

NO

RETAIL ARMAGEDDON

YES

RETAIL METAMORPHOSIS

Successful grocery retailers and manufacturers will balance and execute Omnichannel flawlessly

SOURCE: The Dialogic Group, LLC., Industry Analysis, 2017
The Strategic Partnership with FMI

Year 1
Discovering the “Size of the Digital Prize”

Year 2
Assessing Industry Readiness

Year 3
Engaging in Transformation
Winning at Digital Demands New Levels of Thinking and Execution

• Consumers have redefined daily food shopping
• The grocery industry is not immune from digital
• The grocery industry is in the “age of digital experimentation”
• A roadmap to achieve real and profitable industry growth continues to evolve
• The gaps to omnichannel success are significant – people, process and technology
• Our year two research illustrates a potential roadmap to success
Digitally Engaged Food Shopper
Digital Food Shopping Continues on its $100B+$ Journey

- **$103B**
  - Online food and beverage sales

- **20%**
  - Of total food and beverage sales

Source: Nielsen Digitally Engaged Food Shopper Survey, Total F&B Retail sales (excluding non-consumer) are estimated to reach $523.8B by 2025.
Online Grocery Could Saturate in 5-7 years

Maturing more quickly than previous forecasts predicted

As many as 70-80% of food shoppers expect to buy online in 10 yrs.

Shoppers Told Us Their Digital Story

37,250
US Adults 18 years +

11,242
Purchased CPG in past 3 months

21,376
Purchases across 96 categories

Source: Digital Shopper Fundamentals, 2017
Online Shopping is Pervasive -- 2017

Greatest Gen: [VALUE]

Boomers: 44%

Gen X: 55%

Millennials: 61%

Total U.S.: 49%

Struggling: [VALUE]

Mid-Range: 46%

Affluent: 54%

Total U.S.: 49%

Percentage of Shopper Group Purchased CPG Product Online in Past 3 Months
Shoppers Identify Online Shopping Barriers

**Trust**
- Food Quality: 75%
- Don’t Trust Process: 31%

**Value**
- Cost/Fees: 44%

**Experience**
- Takes Too Long: 28%
- Not As Fun: 28%

*Shoppers were allowed to select up to 3 options

Source: Digital Shopper Fundamentals, 2017

Online shopping barriers (NET) (what perceptions deter shoppers from buying CPG items online?)
Once Online, the Key Differentiators Emerge

- **PRICE / VALUE**: 81%
  - 51% FREE SHIPPING
  - 47% GOOD VALUE
  - 44% LOW PRICE

- **CONVENIENCE**: 76%
  - 50% SAVES TIME
  - 42% BETTER FOR SCHEDULE
  - 32% CONVENIENT DELIVERY

- **VARIETY/NOVELTY**: 52%
  - 26% HIGH QUALITY
  - 20% SPECIALTY ITEMS
  - 13% MORE VARIETY

- **EXPERIENCE**: 42%
  - 31% EASY SITE NAVIGATION
  - 13% PRODUCT INFO
  - 9% FLEXIBLE RETURNS

Source: Digital Shopper Fundamentals, 2017
Four Key Must Haves

Mobile is a growing platform of choice for all generations.

Low tolerance for poor user experiences - the importance of creating great online experiences is higher than ever.

Digital food shoppers prefer to be in control, so favor website self-service solutions over assisted service.

Listen for conversations about your brand on social media, and engage and learn from them.
Industry’s Digital Readiness
The Readiness Assessment Framework

**PEOPLE**
- Strategic Planning
- Organizational Structure
- People/Culture

**PROCESS**
- Supply Chain
- Marketing
- Merchandising
- Collaboration

**TECHNOLOGY**
- Performance Management
- Big Data
- Analytics
Lots of Opportunity to Improve Capabilities

**Manufacturers’ and Retailers’ Self-Reported Readiness**

**People**
- **Less Ready**
  - Culture & Skill Set Readiness
  - KPIs & Performance Eval.
  - Digital Strategy Defined
  - More Ready

**Technology**
- **Less Ready**
  - Measure & Monitor Digital ROI
  - Technology Investment
  - More Ready

**Process**
- **Less Ready**
  - Offer Website & App Purchases
  - Equipped to Fulfill Four Delivery Methods
  - Monitor Online Inventory & Out of Stock
  - More Ready
  - Company’s Marketing Plan for Digital Engagement
  - Less Ready
  - Monitor Pricing/Promotions Online
  - Assortment Differ Online & In Store
  - Collaboration with Vendors or 3rd Parties
  - More Ready

Source: Food Marketing Institute Survey, Retailers & Manufacturers, Nov. 2017 Retail n=43, Manufacturer n=17
Evaluate Skillsets

Assess digital capabilities, develop omnichannel strategies, and build the right culture and skillset.

- 20% of retailers have assessed digital capabilities or performance and established metrics.
- 32% of manufacturers have developed short- and long-term omnichannel strategies.
- 22% of retailers have short- and long-term omnichannel strategies.
- 35% of manufacturers have a way to measure capabilities or the needed skillset.
- 7% of retailers have culture or skills needed to win in omnichannel.
- 18% of manufacturers have culture or skills needed to win in omnichannel.

Less than 35% of manufacturers or retailers have developed short- and long-term omnichannel strategies. Even less have a way to measure capabilities or the needed skillset.

Source: Food Marketing Institute Survey, Retailers & manufacturers, Nov, 2017 Retail n=43, Manufacturer n=17
Create Seamless Integrated Processes

Both retailers and manufacturers need to integrate the omnichannel experience by aligning efforts.

- Manufacturers appear to be better prepared to execute merchandising across omnichannel, but only slightly.

18% | Budget for digital shopper marketing/targeting
---|---
30% | Have ability to track or standardize omnichannel pricing
33% | Have ability to track or standardize omnichannel pricing
42% | Uniquely tailored assortments online/offline
16% | Have extensive digital collaboration programs/partners
24% | Have extensive digital collaboration programs/partners
9% | Have extensive digital collaboration programs/partners
29% | Have extensive digital collaboration programs/partners

Source: Food Marketing Institute Survey, Retailers & manufacturers, Nov, 2017 Retail n=43, Manufacturer n=17
View Technology as the Enabler

Digital transformation will require digital integration budgets and ongoing performance metrics

Source: Food Marketing Institute Survey, Retailers & manufacturers, Nov, 2017 Retail n=43, Manufacturer n=17

- **RETAILER**
  - 5% have extensive metrics to measure ROI of digital activities
  - 23% budgets established to invest in omnichannel data integration

- **MANUFACTURER**
  - 15% recognize the need for metrics or have budgeted for omnichannel investments
  - 18%
Technology Identified as Greatest Concern

However, process and people investments are also needed for success

“Technology today is as important as anything we do.”
– Grocery Retailer

“Hard to win on technology without the people, as we ramp we need to say “hey, we need the right people.”
– Manufacturer

“I don’t think we can do it in-house. I think we have to find the right mix of partners, and work hard with them to make it as integrated as possible.”
– Manufacturer

Source: Manufacturer and Retailer Exec Interviews (2017)
Understanding Transformation Imperatives
Digital Transformation Imperatives

Collaboration across these imperatives will drive sales or remove excess cost

- Duplicative Organizational Structure
- Disjointed Shopper Insights
- Master Data Accuracy
- Suboptimal Marketing & Promotions
- Poor Forecasting
- Digital Shelf Challenges

Source: Initial Manufacturer and Retailer Exec Interviews (2017)
Eliminate Duplicative and Siloed Teams
Driving significant costs – at the same time both parties realize talent needs

“We have to talk to four key retailer buyers in our category to address both in-store and online, instead of one category captain.”
– Fresh Foods Manufacturer

“Our category captains are responsible for both the digital and physical shelf. This hybrid model works for us. But many manufacturers have two separate teams.”
– Grocery Retailer

“Our philosophy is to keep brick running as is, while trying to win in digital as a parallel path, but then we need to figure out how to marry the two together.”
– CPG Manufacturer

Both parties agree, available talent to help drive success is lacking
In addition, there is a significant level of duplication across both retail and CPG

Source: Manufacturer and Retailer Exec Interviews (2017)
Improve Master Data Accuracy

Will reduce inefficiencies and improve consumer perception

“We talk about inaccurate product information every day. We’ve developed a scorecard to measure accuracy of our manufacturers’ data and share back their performance.”

–Grocery Retailer

“The #1 capability that needs to be improved in the digital collaboration model is consumer-facing digital product information. We need to get the correct information online and keep it correct. Data integrity is critical.”

–CPG Manufacturer

“A lot of time and effort is spent, on both sides, on data input, collection, and accuracy.”

–Grocery Retailer

Interviews unanimously suggest that inaccurate master data management is a significant cost contributor

Both parties must accelerate efforts to improve master data management – critical industry issue

Source: Manufacturer and Retailer Exec Interviews (2017)
Align on Forecasting

Independent forecasts are adding significantly to operational inefficiencies – apply predictive analytics to improve accuracy

“We do not have enough analytics people, don’t have enough of that skillset, to develop more precise forecasting.”
– Grocery Retailer

“Forecasting costs a lot and is currently low ROI. Matching demand with supply in a seamless way is hard to do and every retailer has their own process.”
– Fresh Foods Manufacturer

“Between 1% and 5% of product today is excess due to bad forecasting. This is a significant, expensive problem.”
– Grocery Retailer

Unanimous agreement on collaborative forecasting as a way to improve overall inventory management while increasing sales

There appears to be no clear path on how to consolidate omnichannel forecasts

Source: Manufacturer and Retailer Exec Interviews (2017)
Collaborate on Consumer Insights

Current fragmentation of shopper knowledge is limiting real growth

“When we’ve been able to partner with manufacturers, share insight resources, and create joint goals we’ve succeeded in growing the category together.”
– Grocery Retailer

“With shopper marketing data, you have to pay to play.”
– Fresh Foods Manufacturer

“We’ve run into challenges sharing emerging digital analytics with manufacturers (e.g. site traffic, conversion rates). It’s not our core competency. Loyalty card data is what we do.”
– Grocery Retailer

Both parties identified a **real growth opportunity by integrating retailer and CPG shopper data**

The belief is that **through integration radically improved ROI’s** can be realized

Source: Manufacturer and Retailer Exec Interviews (2017)
Boost Digital Campaign and Promotion ROI

A real opportunity to drive more profitable growth for both organizations

“"We’ve have had too many marketing agencies, which we’ve cleaned up. We have consolidated everything to two: one retailer focused and one consumer focused.”
—Fresh Foods Manufacturer

“We want to execute more promotions and collaborate with manufacturer partners in new ways to bring in new consumers.”
—Grocery Retailer

“We’ve gotten good at social media and now spend 40¢ of every marketing $1 on social. But we have done a bad job of translating our campaigns to the retailer, partnering with the retailer.”
—CPG Manufacturer

Unanimous recognition that ROIs on marketing dollars can be radically improved

Real belief that personalization driven by both parties could deliver real growth through targeting

Source: Manufacturer and Retailer Exec Interviews (2017)
Align on a Digital Shelf
The real opportunity with seamless go-to-market shelf capabilities

“Some manufacturers don’t know what a product image is and some are digitally sophisticated. There is a very wide spectrum.”
—Grocery Retailer

“Manufacturers spend a lot on separate personnel to optimize digital shelves when the existing category captains should handle that, but they don’t have the skillset.”
—CPG Manufacturer

“We are ahead of the curve, actively working to integrate both the digital and physical shelf while understanding differences. Product launches are planned for both in-store and online.”
—Grocery Retailer

Both parties agree, *product information, imagery, seamless views of the shelf, transparent pricing are all critical issues to solve*. There does not appear to be a *common path to achieve virtual shelves*.
Digital Collaboration Improves Margins

Both agree highest potential from master data, promotion and shopper insights

Retailers and CPG manufacturers clearly recognize the opportunity for margin improvement through transformative digital collaboration

2.50 — 3.50
Best-of-Breed Digital Transformation

Both parties share the responsibility of real and profitable omnichannel growth

**PEOPLE**
- Vision and leadership capable of implementing a winning digital strategy
- Executive ownership of a cross functional and integrated resource plan
- Build digital skillsets either by acquisition or internal talent development
- Entrepreneurial, technological and process innovative mindset
- Focus on long term, not week to week

**PROCESS**
- Identify current processes capable of being digitally reengineered
  - Master data
  - Forecasting/Supply Chain
  - New product development
  - Merchandising/marketing
  - Collaboration
- Prioritize based on ROI
- Test and learn
- Measure financial impact of digital transformation

**TECHNOLOGY**
- Define digital transformation technology roadmap
  - External (shopper insights, customer engagement, personalization, collaboration)
  - Internal (data analytics and applications supporting digital strategies)
- Ensure all digital investments enable growth and/or improve profitability
- Integrate technology across all key elements of retailer/manufacturer collaboration

PEOPLE

PROCESS

TECHNOLOGY
Four Key Takeaways

Get these right to attract and retain the evolving digitally engaged food shopper

Create a cross-organizational framework to win profitably in omnichannel – lower cost, highly integrated operating model

Develop a differentiation strategy with improved in-store and online shopper experience

Invest heavily in shopper centric big data and predictive analytics to gain real growth through shopper knowledge

Fully engage in digital collaboration – NOW!
Get the Conversation Started...

**EXECUTIVE WORKBOOK**

**FINDING THE PROFITABLE PATH TO YOUR DIGITALLY ENGAGED GROCERY SHOPPERS**

**EXECUTIVE WORKBOOK 2018**

Think through:
- People
- Processes
- Technology

Visit fmi.org/digitalshopper for more resources

**WEBINAR – Feb 15th**

JOIN FMI/NIELSEN FOR:

**THE DIGITALLY ENGAGED FOOD SHOPPER: DEVELOPING YOUR OMNICHANNEL COLLABORATION MODEL**

THURSDAY, FEBRUARY 15TH

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