FMI Midwinter
EXECUTIVE CONFERENCE
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LEADERSHIP PERSPECTIVE VISION
Next Generation Loyalty: Get it Right in Food Retail
Today’s Presenters

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Is Loyalty Important and How Loyal are US Shoppers to Their Food Retailer?

How do you Earn Loyalty & How are Food Retailers Doing?

What is Next Generation Loyalty in 3D?
Is Loyalty Important and How Loyal are US Shoppers?
Given recent market changes, how has the importance of loyalty changed in your company?

75% of retailers stated that the importance of loyalty has increased.
Shoppers say they are loyal but their behavior suggests differently

- **Loyalty to Grocery Store**
  - I am Loyal
  - I am Very Loyal

- **Preference for Shopping at One Store**
  - I prefer shopping at multiple stores
  - I prefer shopping at one store

- **Number of Stores Shopped**
  - I shop at four stores
  - I shop at three stores
  - I shop at two stores
  - I shop at one store

- **Percent of Weekly Budget Spent at Primary Store**
  - Up to 60%
  - 61% to 70%
  - 71% to 80%
  - 81% to 90%
  - 90% to 100%

*Source: IDC Retail Insights & Precima Next Generation Loyalty Study 2018*
Retailers with loyalty programs and who are growing sales have customers who believe they are more loyal.

**% of Shoppers Stating "Very Loyal"**

- **Responses from All Consumers**: 28%
- **Retailer has a loyalty program**: 32%
- **Retailer DOES NOT HAVE a loyalty program**: 24%

*Note: only includes responses where sufficient sample size was obtained for primary retailer.

**% of Shoppers Stating "Very Loyal"**

- **Responses from All Consumers**: 29%
- **Retailer Sales Declined**: 27%
- **Retailer Sales Grew**: 30%

Source: IDC Retail Insights & Precima Next Generation Loyalty Study 2018
The importance of **loyalty programs** varies dramatically by retailer and shoppers.

Source: IDC Retail Insights & Precima Next Generation Loyalty Study 2018

<table>
<thead>
<tr>
<th>Type of Retailer</th>
<th>Avg Importance</th>
<th>Loyalty Program?</th>
</tr>
</thead>
<tbody>
<tr>
<td>EDLP</td>
<td>17%</td>
<td>Yes</td>
</tr>
<tr>
<td>HiLow</td>
<td>13%</td>
<td>Yes</td>
</tr>
<tr>
<td>Club</td>
<td>12%</td>
<td>Yes</td>
</tr>
<tr>
<td>HiLow</td>
<td>10%</td>
<td>Yes</td>
</tr>
<tr>
<td>HiLow</td>
<td>8%</td>
<td>Yes</td>
</tr>
<tr>
<td>EDLP</td>
<td>4%</td>
<td>No</td>
</tr>
<tr>
<td>HiLow</td>
<td>4%</td>
<td>Yes</td>
</tr>
<tr>
<td>HiLow</td>
<td>3%</td>
<td>Yes</td>
</tr>
<tr>
<td>HiLow</td>
<td>0%</td>
<td>Yes</td>
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<tr>
<td>EDLP</td>
<td>4%</td>
<td>No</td>
</tr>
<tr>
<td>HiLow</td>
<td>8%</td>
<td>Yes</td>
</tr>
<tr>
<td>HiLow</td>
<td>10%</td>
<td>Yes</td>
</tr>
<tr>
<td>Deep Discount</td>
<td>53%</td>
<td>No</td>
</tr>
</tbody>
</table>
How do you Earn Loyalty & How are Food Retailers Doing?
Traditional areas of merchandising and shopper experience are most important to shoppers

How important are the following in deciding at which retailer you'll shop for groceries?

Source: IDC Retail Insights & Precima Next Generation Loyalty Study 2018
But there are some interesting differences by generation, especially with the emerging offering components

How important are the following in deciding at which retailer you'll shop for groceries?

<table>
<thead>
<tr>
<th>Component</th>
<th>Millennials</th>
<th>Baby Boomers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best-in-class loyalty program</td>
<td>3.6</td>
<td>3.4</td>
</tr>
<tr>
<td>Personalized offers</td>
<td>3.7</td>
<td>3.2</td>
</tr>
<tr>
<td>Ecommerce offerings</td>
<td>3.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Best-in-class website</td>
<td>3.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Best-in-class smart phone apps</td>
<td>3.3</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Source: IDC Retail Insights & Precima Next Generation Loyalty Study 2018
Core food departments are most important to shoppers when deciding where to shop

How important are the following in deciding at which retailer you'll shop for groceries?

- Fresh fruits and vegetables: 4.6
- Fresh meats/ingredients: 4.4
- Dairy: 4.4
- Frozen: 4.2
- Home goods (cleaning): 3.9
- HBC (Health and beauty): 3.6
- Ethnic foods: 3.4
- Prepared meals: 3.3
- Gen merch (clothes, auto): 3.3
- Meal kits: 3.3
- In-store eating: 2.8

Source: IDC Retail Insights & Precima Next Generation Loyalty Study 2018
But again there are some interesting differences by generation, especially with the emerging departments.

How important are the following in deciding at which retailer you'll shop for groceries?

<table>
<thead>
<tr>
<th>Service</th>
<th>Millennials</th>
<th>Baby Boomers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepared meals</td>
<td>3.6</td>
<td>3.0</td>
</tr>
<tr>
<td>Meal kits/ingredients</td>
<td>3.6</td>
<td>2.9</td>
</tr>
<tr>
<td>In-store eating</td>
<td>3.1</td>
<td>2.4</td>
</tr>
</tbody>
</table>
Ranking of performance is aligned but retailers gave higher ratings

How well are retailers performing across the following offering components?
Ranking of performance is aligned but retailers gave higher ratings

How well are retailers performing across the following product departments?

Consumers rate more highly:
- Fresh fruit and vegetables
- Grocery (e.g. cereal, canned goods, etc.)
- Dairy
- Fresh meats/poultry/fish
- Home goods (cleaning products, etc.)
- General merch (clothes, auto, etc.)
- Meal kits/ingredients
- Ethnic foods
- Prepared meals

Retailers rate more highly:
- Health & Beauty Care
- Dell
- In-store eating

Source: IDC Retail Insights & Precima Next Generation Loyalty Study 2018
What is Next Generation Loyalty?
To achieve this, retailers need to realize **two objectives**:

- **Understand Customer Needs**
  - on a granular, timely & frequent basis

- **Consistently Execute Actions**
  - that best satisfy customer needs

Loyalty is NOT a card or a program or an initiative

*Loyalty has to be earned by Best Satisfying the Needs of Customers*
Loyalty needs to evolve and is Best Viewed in 3D

1D Loyalty as a Strategy

2D Loyalty as an Outcome

3D Loyalty as a Program
Loyalty as a Strategy: Align strategic decisions with customer needs

What is your preferred place for purchasing the following products?

- Fresh meats, poultry, fish: 87% Store is preferred place, 13% Store is NOT preferred place
- Fruit and vegetables: 85% Store is preferred place, 15% Store is NOT preferred place
- Ready-to-go Meals: 79% Store is preferred place, 21% Store is NOT preferred place
- Canned Goods: 77% Store is preferred place, 23% Store is NOT preferred place
- Snacks: 75% Store is preferred place, 25% Store is NOT preferred place
- Home products: 71% Store is preferred place, 29% Store is NOT preferred place
- Health & Beauty Care: 62% Store is preferred place, 38% Store is NOT preferred place

- Valuable segments shop online at least once/month:
  - Families >40%
  - Millennials ~50%
  - Urbanites ~50%
  - High Income >30%

Source: IDC Retail Insights & Precima
Loyalty as a Strategy: Largest customer-driven growth opportunities

What are the largest customer-driven opportunities to drive growth?
Loyalty as an Outcome of Daily Decisions: Pricing

Where should you invest in lower prices?

**ITEM A**
Price change: -10%

- **All**
  - Volume change: +12%

- **1st**
  - Volume change: 0%

- **2nd**
  - Volume change: +3%

- **3rd**
  - Volume change: +20%

**ITEM B**
Price change: -10%

- **All**
  - Volume change: +10%

- **1st**
  - Volume change: +12%

- **2nd**
  - Volume change: +8%

- **3rd**
  - Volume change: +2%
Loyalty as an Outcome of Daily Decisions: Pricing

Where should you personalize prices?

<table>
<thead>
<tr>
<th>Price</th>
<th>Volume</th>
<th>Sales</th>
<th>GP$’s</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.99</td>
<td>+2.2%</td>
<td>+2.3%</td>
<td>+1.4%</td>
<td>Shelf</td>
</tr>
</tbody>
</table>

90% of Customers

<table>
<thead>
<tr>
<th>Price</th>
<th>Current Value</th>
<th>Potential Value</th>
<th>Intent</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.89</td>
<td>high</td>
<td>low</td>
<td>Defend &amp; retain</td>
<td>email</td>
</tr>
<tr>
<td>$1.85</td>
<td>high</td>
<td>med</td>
<td>Retain &amp; grow</td>
<td>app</td>
</tr>
<tr>
<td>$1.95</td>
<td>med</td>
<td>high</td>
<td>Grow</td>
<td>paper</td>
</tr>
<tr>
<td>$1.80</td>
<td>high</td>
<td>low</td>
<td>Defend &amp; retain</td>
<td>email</td>
</tr>
<tr>
<td>$1.75</td>
<td>high</td>
<td>low</td>
<td>Defend &amp; retain</td>
<td>email</td>
</tr>
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Loyalty as an Outcome of Daily Decisions: Promotions

What promotions are valuable for the category and for loyal customers?

- Maintain for Overall Category Value
  - Folgers
  - Starbucks Coffee

- Maximize Promo Investment
  - Starbucks Coffee

- Fix or Stop
  - Private label ground coffee

- Maintain for Best Customer Value
  - Keurig
What items in the assortment have high value and are important to loyal customers?

Core Items appeal to Loyal Customers and have few substitutes.

Delist Opportunities hold less appeal to Loyal Customers and have most transferability.

Source: Precima
Loyalty as an Outcome of Daily Decisions: Personalized Marketing

How do I identify offers for each customer that drive response & incremental sales?

- Thank You
- Incremental Sales (Cross Sell/Up Sell)
- Improve Category Penetration
- Support Brand Objectives
- Total Spend and Frequency

How do I incorporate customer-driven offers into the personalization process?

- Total Store Offer Bank
- Offer Optimization Engine

Source: Precima
Loyalty as an Outcome of Daily Decisions: Supplier Collaboration

How is My Business Performing?

• Identify areas of under-performance by category, customer/segment, store
• Perform root-cause analyses for performance issues
• Identify potential actions to remedy issues

How Can I Most Effectively Grow my Business?

• What are best promotion opportunities?
• What are best assortment opportunities?
• What are best distribution opportunities?
• What are best supply chain opportunities?
• What are best shopper marketing opportunities?
• What are best customer segment opportunities?

Source: Precima
Loyalty as a Program

How do I maximize the value of my loyalty program?

Enhance Standalone Value Proposition

• How is the loyalty program performing?
  • For shoppers?
  • For the retailer?
• How can the loyalty program be enhanced?
  • Funding levels, earn/redeem, dividend?
  • Base-variable, hard/soft, overt/covert?
  • Customer/product focus?

Enhance Next Generation Loyalty

• Strategy: growth opportunities
• Personalized marketing: response, incrementality, scale
• Customer-Centric Pricing: shelf, ecom, personal
• Customer-Centric Promotions: stop, fix, slant
• Customer-Centric Assortment: true item value, customer item importance
• Supplier Collaboration: align supplier resources/assets

Source: Precima
Loyalty in 3D Delivers Differentiated & Sustainable Results

**Loyalty Strategy**

- **Enhanced Loyalty Programs**
  - ROI: 1-1.5X

- **Personalized Marketing**
  - ROI: 2-3X

- **Customer-Centric Merchandising**
  - ROI: 4-6X

- **Shopper-Driven Supplier Collaboration**
  - ROI: 5-8X

Source: Precima
Loyalty has to be Earned
by consistently satisfying customer needs better than the competition

Loyalty is about more than a Card or Program
Loyalty can be earned in multiple ways

Different generations have different needs
Meet needs of today but lay foundations for future shopper needs

Arm associates with the data, insights and tools
to consistently make customer-centric decisions to earn loyalty
Questions?
Precima Thought-Leadership

The Grocery Store Is an Asset
How Food Retailers Use It in the Future Will Determine Success or Failure
https://www.precima.com/content/the-grocery-store-is-an-asset

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To be published following FMI Midwinter...

Precima AND US FOODS REVEAL
HOW RETAILERS CAN USE
CUSTOMER-CENTRICITY TO GROW
MARKET SHARE
January 17, 2017 • Type: News
Retailer marketing and merchandising teams must renew their focus on meeting the needs and desires of customers or risk losing market share. A presentation this week at the 2017 National Retail Federation Big Show in New York sponsored by Precima, shows retailers how to invest in the products, promotions and services that matter most to customers.

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Beyond Category Management
July 14, 2017 • By: Graeme McVie • Type: Blog • Featured in: Retail Leader
When he coined the phrase "Category Management" nearly 30 years ago, even then USC professor Brian Harris could hardly have imagined the impact his creation would have on the retail industry. Category management launched hundreds of new careers on both the retail and brand sides, spawned dozens of consulting and technology firms and generally shook up the world of retail.
While the practice of category management has served the supermarket industry well, the problem is customers are shopping less in the channel, according to
https://www.precima.com/research-insights/blog/beyond-category-management-1