FMI
THE VOICE OF FOOD RETAIL
Feeding Families Enriching Lives

DEVELOPING YOUR OMNICHANNEL COLLABORATION MODEL

The Digitally Engaged Food Shopper

This artwork was created using Nielsen data.

WHY ARE WE HAVING THIS CONVERSATION

Five must remember numbers from todays discussion

20% of spend

40% of Center Store

74% of Shoppers

6 Strategic Imperatives

2.5 – 3.5 Additional Points of Margin

All are core to your growth and profitability over the next five years

TOPICS OF DISCUSSION

SETTING THE STAGE OF OUR THREE YEAR DIGITAL JOURNEY

DIGITALLY ENGAGED FOOD SHOPPER UPDATE

INDUSTRY’S DIGITAL READINESS

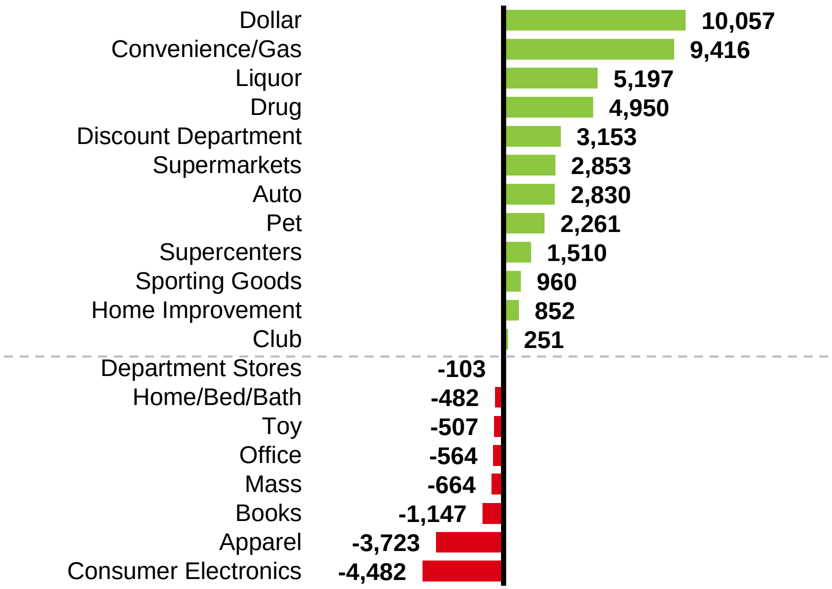
UNDERSTANDING TRANSFORMATION IMPERATIVES

PREPARING TO WIN

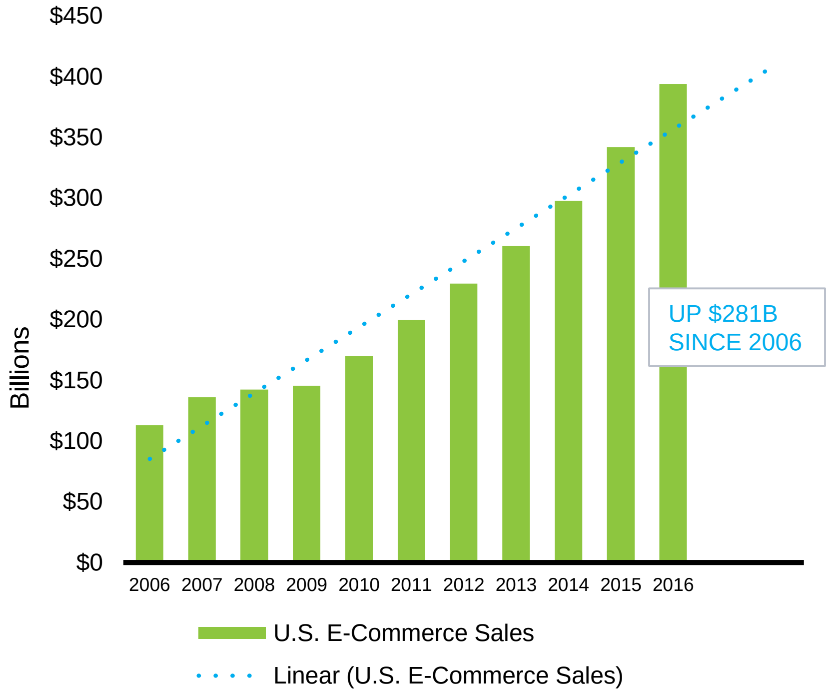
SETTING THE STAGE ON DIGITAL

CORRELATION BETWEEN DIGITAL GROWTH AND NON-FMCG RETAIL STORE CONTRACTION

DIFFERENCE IN OPEN STORE COUNT 2016 VERSUS 2006



WILL GROCERY EXPERIENCE A SIMILAR FATE?

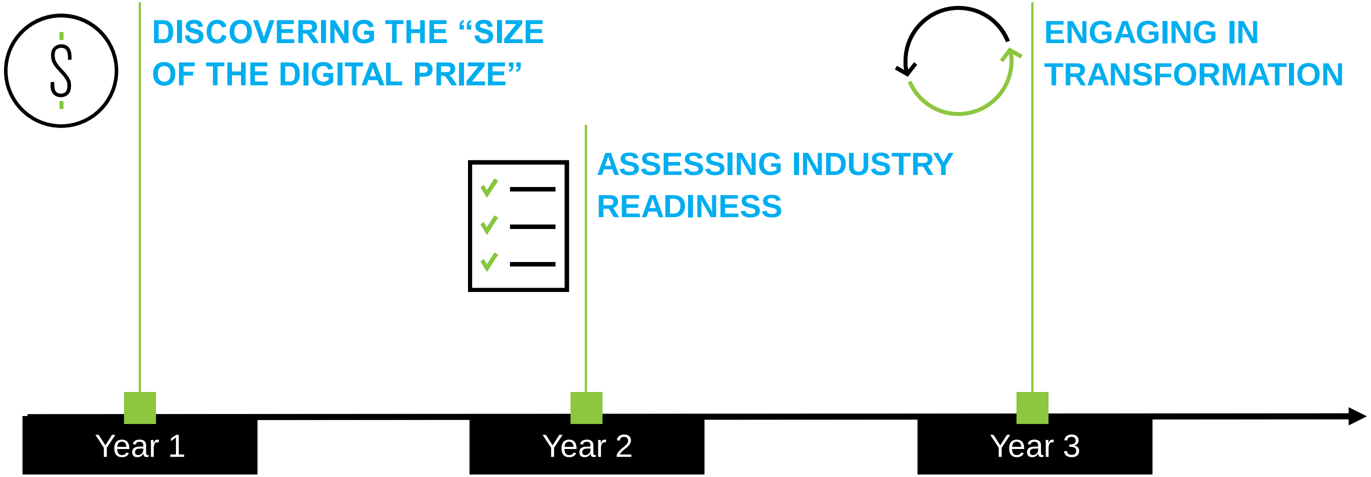


Sources: Nielsen TDLinx (open store counts); U.S. Census Bureau, U.S. Retail E-Commerce Sales

"THIS IS A RETAIL METAMORPHOSIS NOT ARMAGEDDON."

This artwork was created using Nielsen data.

THE STRATEGIC PARTNERSHIP WITH FMI



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

This artwork was created using Nielsen data.

DIGITAL FOOD SHOPPING CONTINUES ON ITS $100B+ JOURNEY

$103B

Online food and beverage sales

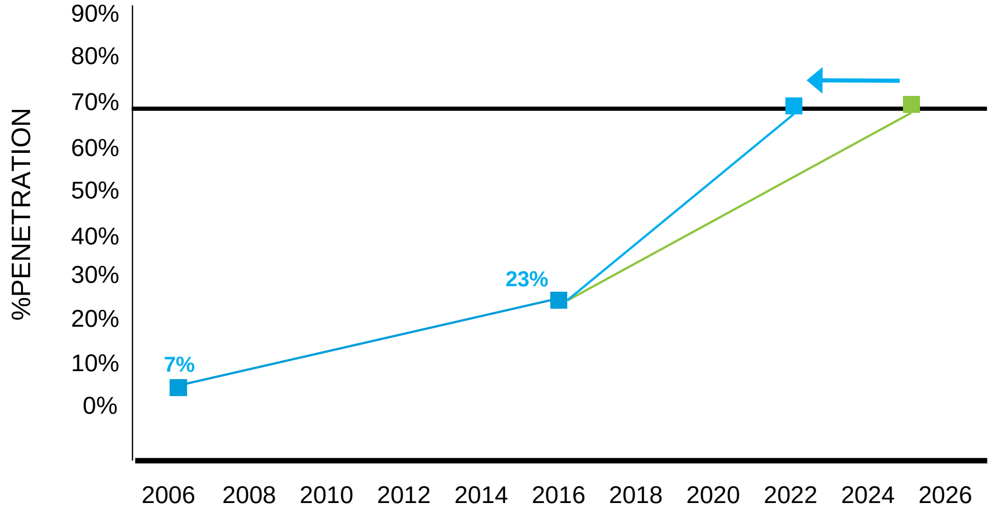
20%

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 WITHIN 5-7 YEARS

Maturing more quickly than previous forecasts predicted



AS MANY AS 70%-80% OF FOOD SHOPPERS EXPECT TO BUY ONLINE IN 5-7 YEARS

Source: Nielsen Digital Segmentation Survey, 2016

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 Shopping Fundamentals I 2017 CPG

ONLINE SHOPPING IS PERVASIVE

All generations and all income levels are into the digital game

39%	Greatest Gen
44%	Boomers
55%	Gen X
61%	Millennials
49%	Total Respondents

PURCHASED CPG PRODUCT ONLINE IN THE PAST 3 MONTHS

Struggling	42%
Mid-Range	46%
Affluent	54%
Total Respondents	49%

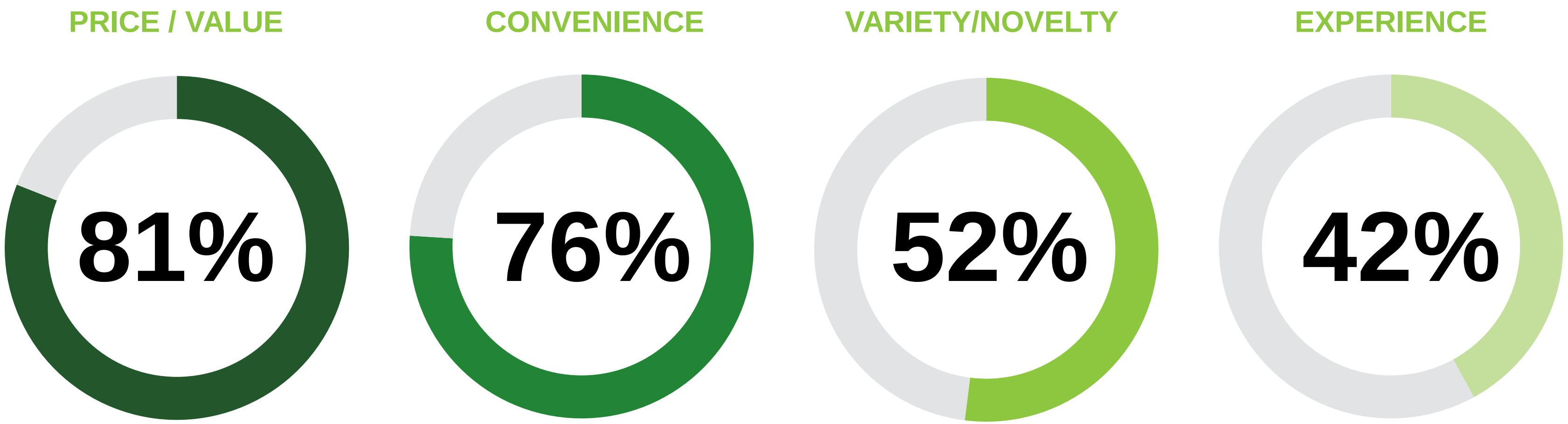
Source: Digital Shopping Fundamentals I 2017 CPG

SHOPPERS IDENTIFY ONLINE SHOPPING BARRIERS

TRUST		VALUE	EXPERIENCE	
FOOD QUALITY	DON'T TRUST PROCESS	COST/ FEES	TAKES TOO LONG	NOT AS FUN
75%	31%	44%	28%	28%

ONLINE SHOPPING BARRIERS (NET) (what perceptions deter shoppers from buying CPG items online?)
*Shoppers were allowed to select up to 3 options
Source: Digital Shopping Fundamentals l 2017 CPG

ONCE ONLINE, THE KEY DIFFERENTIATORS EMERGE



PRICE / VALUE	CONVENIENCE	VARIETY/NOVELTY	EXPERIENCE
51% FREE SHIPPING	50% SAVES TIME	26% HIGH QUALITY	31% EASY SITE NAVIGATION
47% GOOD VALUE	42% BETTER FOR SCHEDULE	20% SPECIALTY ITEMS	13% PRODUCT INFO
44% LOW PRICE	32% CONVENIENT DELIVERY	13% MORE VARIETY	9% FLEXIBLE RETURNS

Source: Digital Shopping Fundamentals I 2017 CPG, n=11240

FOUR KEY MUST-HAVES

- Mobile is a *growing* the *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

This artwork was created using Nielsen data.

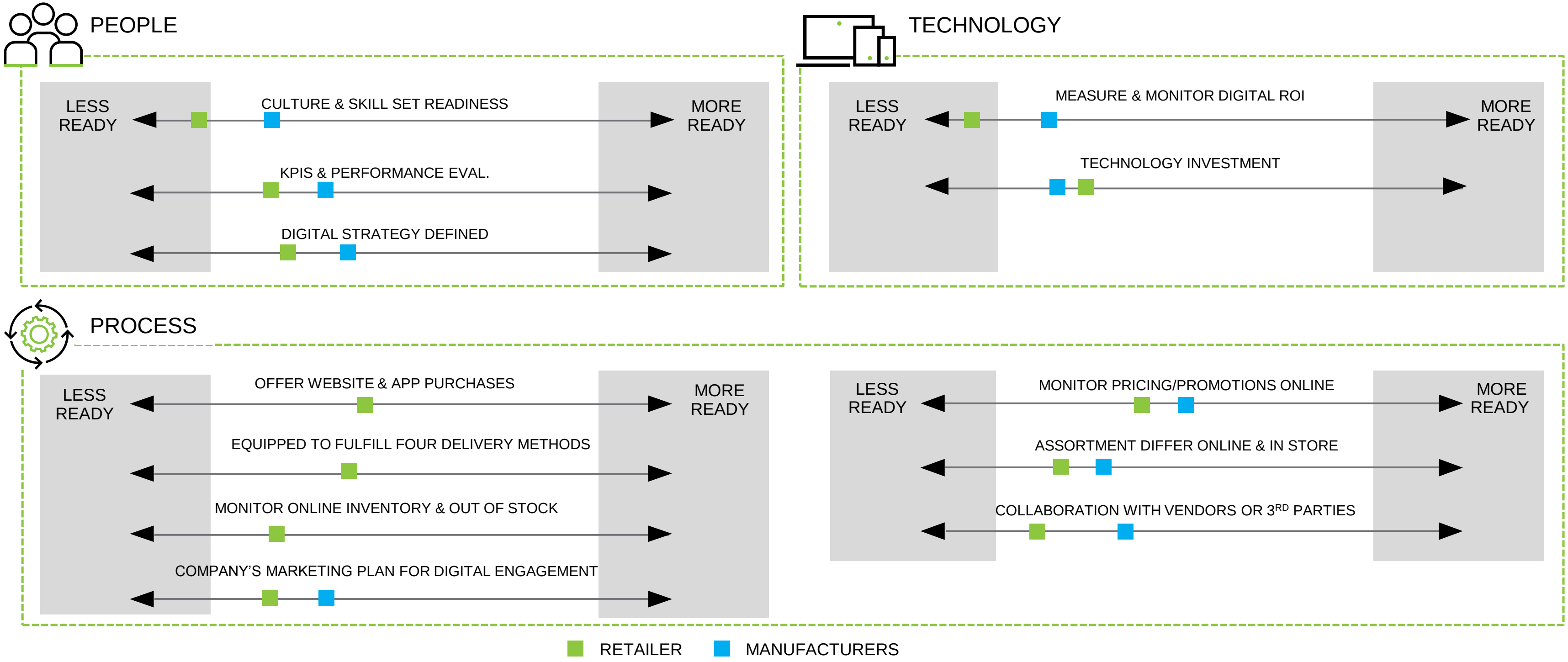
ROADMAP TO SUCCESSFUL DIGITAL TRANSFORMATION

PEOPLE	PROCESS	TECHNOLOGY
THE DIGITAL COMPETENCY NEEDED TO SUCCEED IN AN OMNICHANNEL WORLD	**STRONG PROCESSES ARE A REQUIREMENT FOR INTEGRATING AND MAINTAINING AN OMNICHANNEL STRATEGY**	**THE REAL-TIME BIG DATA AND ANALYTICS THAT ENABLE THE PEOPLE AND PROCESSES TO WORK EFFECTIVELY TOGETHER**
Strategic Organizational Structure	Master Data Accuracy Integrated Forecasting	Cohesive Shopper Insights Improved Marketing and Promotions Optimized Digital Shelf

Source: Initial Manufacturer and Retailer Exec Interviews (2017)

LOTS OF OPPORTUNITY TO IMPROVE CAPABILITIES

MANUFACTURERS' AND RETAILERS' SELF-REPORTED READINESS



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

BUILD THE RIGHT CULTURE AND SKILL SETS

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

RETAILER		MANUFACTURER
20%	Have assessed digital capabilities or performance and established metrics	32%
22%	Have short- and long-term omnichannel strategies	35%
7%	Have culture or skills needed to win in omnichannel	18%

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 manufactures need to integrate the omnichannel experience by aligning efforts

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

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

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

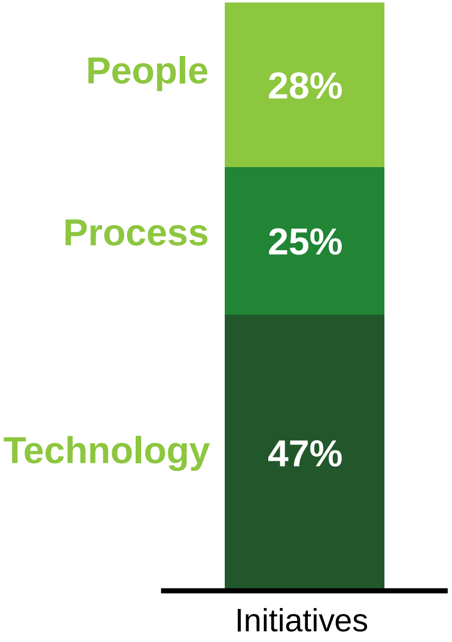
RETAILER		MANUFACTURER
5%	Have extensive metrics to measure ROI of digital activities	15%
23%	Budgets established to invest in omnichannel data integration	18%

Neither parties recognize the need for metrics or have budgeted for omnichannel investments

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

TECHNOLOGY IDENTIFIED AS GREATEST CONCERN

However, process and people investments are also needed for success



"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

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

Source: Manufacturer and Retailer Exec Interviews (2017)

UNDERSTANDING TRANSFORMATION IMPERATIVES

This artwork was created using Nielsen data.

DIGITAL TRANSFORMATION IMPERATIVES

Collaboration across these imperatives will drive sales or remove excess cost

1. Strategic organizational structure
2. Master Data Accuracy
3. Integrated forecasting
4. Optimize shopper insights
5. Improve marketing and promotions
6. Integrate digital and in-store shelf capabilities

Source: Initial Manufacturer and Retailer Exec Interviews (2017)

ELIMINATE DUPLICATIVE, 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)

ORGANIZATIONAL STREAMLINING HAS BEGUN

Omnichannel demands simplified, agile and, less costly operating models

EARLY PARTNERSHIPS

- Beginning to address duplication of roles for B&M and online

MATURE PARTNERSHIPS

- Hiring expertise from out outside channel
- Establishing Chief Digital Officer
- Cross functional structure to embed digital is all existing processes

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)

SHOPPERS DEMAND TRANSPARENCY AND AUTHENTICITY

Accurate data is a basic element of competing in Omnichannel

EARLY PARTNERSHIPS

Improving data accuracy
Implementing a new end to end data integration process:

- Common structure
- Seamless process
- Faster updates
- Lower cost

MATURE PARTNERSHIPS

Further cost reductions
Improved speed of execution

ALIGN ON FORECASTING

Independent forecasts are adding significantly to cost/operational inefficiencies – apply predictive analytics to improve forecasting 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)

ALIGNMENT ON DEMAND DRIVES GROWTH/ PROFITS

Today's forecasting is resulting in empty shelves or varying degrees of excess inventory

EARLY PARTNERSHIPS

Elimination of outdated forecasting processes and systems

Investing in new forecasting capabilities:

- predictive demand across all delivery methods (B&M, B&C, DTC)

MATURE PARTNERSHIPS

Streamlined forecasting organizations across people, process, and technology

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)

COMPREHENSIVE VIEW OF THE SHOPPER

Conversations about shoppers are changing from debate to alignment

EARLY PARTNERSHIPS

Ongoing debate of “who is right about the shopper” is changing as both retailer and manufacturers recognize the need to drive more trips and larger baskets

MATURE PARTNERSHIPS

Fair and equitable data sharing with mutually beneficial outcomes

BOOST DIGITAL CAMPAIGN AND PROMOTION ROI

A real opportunity to drive more profitable grow 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 ***ROI’s on marketing dollars can be radically improved***

Real belief that ***personalization driven by both parties c***ould deliver real growth through targeting

Source: Manufacturer and Retailer Exec Interviews (2017)

MAKING PROMOTIONS RELEVANT

Never have so many spent so much and received so little

EARLY PARTNERSHIPS

Aligning on how to better invest trade and promotional dollars

- First stages of “relevancy marketing” including omnichannel targeting

MATURE PARTNERSHIPS

Piloting integration of all aspects of shopper engagement - people, process, and technology

Beginning to align end to end including agencies

ALIGN ON A DIGITAL SHELF

A 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***

Source: Manufacturer and Retailer Exec Interviews (2017)

PURCHASE BEHAVIOR CENTERS ON CONVENIENCE

The science of the virtual shelf is in its infancy

EARLY PARTNERSHIPS

Tuning current assortments for omnichannel:

- Pricing transparency
- Limited price/pack architecture
- Delivery options
- Early stages of omnichannel category management

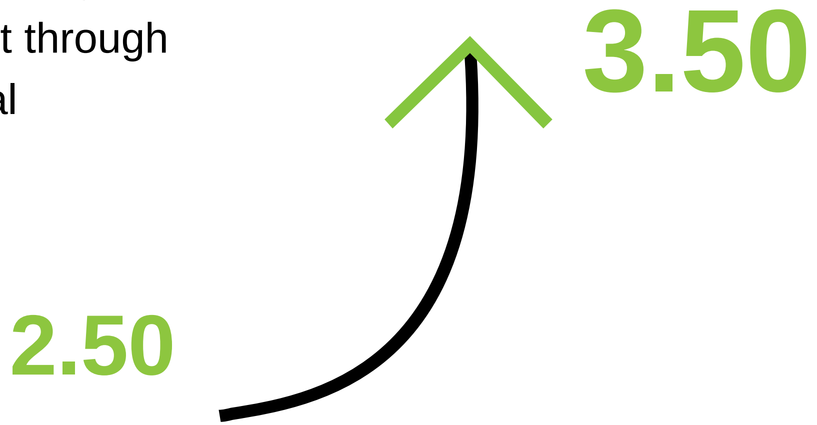
MATURE PARTNERSHIPS

- Investing in product and packaging innovation directly linked to the “selling channel”
- In various stages integrating brand and category management with omnichannel merchandising

DIGITAL COLLABORATION IMPROVES MARGINS

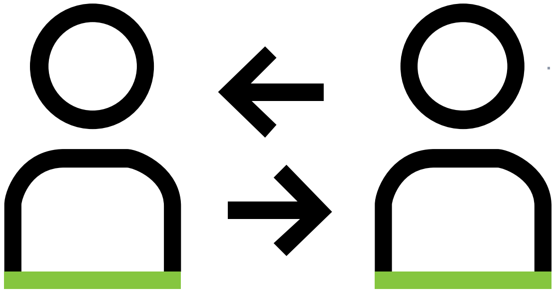
Both agree highest potential from master data, promotion and shopper insights

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



COLLABORATION YIELDS POSITIVE MARGIN RESULTS

The journey demands commitment



ESTABLISHING PRIORITIES FOR THE SIX IMPERATIVES IS CRITICAL – SELECT THE IMPERATIVE WHERE BOTH PARTIES AGREE CAN DELIVER THE GREATEST FINANCIAL RESULTS

TEST AND LEARN – PILOT PARTNERSHIPS AND ESTABLISH AN EXECUTION PLAN WITH PERFORMANCE METRICS

BE WILLING TO LEVERAGE EACH OTHERS SKILLS SETS IN ORDER TO REALIZE BEST PRACTICES

FAIL FAST AND FAIL CHEAP – CONTINUOUSLY ASSESS PROGRESS

PREPARING TO WIN

LEADING THE INDUSTRY IN MARKET IMPROVEMENT

Master Data Accuracy

Nielsen has the most rich and complete **reference data** available in the market

Continued investments and acquisitions like **Brandbank** to keep your data relevant as the market evolves

Shopper Insights

Total Consumer focus to provide you with a 360 degree of consumers

Shopper Essential Product Suite assesses the brick-and-mortar and e-tailer landscape uncovering shopper motivations, perception and behaviors online and offline

Sales Effectiveness

Analytics link exposed audiences to actual purchases to confirm lift, return on ad spend against specific offers/by campaign – identify suboptimal spend and course correct

Digital Shelf

Optimizing assortments with click-and-collect as its own store or in-store and fulfillment areas together within stores

38+ CONNECTED PARTNERS BRING COLLABORATION TO LIFE

GET THE CONVERSATION STARTED

INTERACTIVE MATERIALS	WHITE PAPER	ASSESSMENT
Finding The Profitable Path To Your Digitally Engaged Grocery Shoppers Executive Workbook Start thinking and talking about how ready your company is and where you can make the highest impact improvements	Visit fmi.org/digitalshopper To Download: **THE DIGITALLY ENGAGED FOOD SHOPPER: DEVELOPING YOUR OMNICHANNEL COLLABORATION MODEL WHITE PAPER**	Visit fmi.org/digitalshopper to take an assessment to see how your company is doing against the six digital collaboration imperatives

THE SCIENCE BEHIND WHAT'S NEXT ™

This artwork was created using Nielsen data.