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Retail Revolution: How Technology and the New Consumer are Transforming the Food Retail Landscape

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THE VOICE OF FOOD RETAIL
Feeding Families Enriching Lives

FMI proudly advocates on behalf of the food retail industry

- FMI conducts programs in public affairs, food safety, research, education and industry relations on behalf of its more than 1,225 food retail and wholesale member companies in the U.S. and around the world.

- FMI membership covers the spectrum of diverse venues where food is sold.

Supermarkets Today Look Very Different Than They Did 35 Years Ago

- **Selection**
  - Average Number of SKUs
    - ***1980*** : 14,145
    - ***2015*** : 39,500
- **Cost**
  - Food as a % of Disposable Income
  - ***1980***
    - At Home – 9.0%
    - Total - 13.2%
  - ***2014***
    - At Home – 5.5%
    - Total - 9.7%
- **Technology**
  - Self Checkout
  - Online Sales

Technology and a Changing Consumer are Compressing the Next Retail Revolution into an Even Tighter Timeframe

- **Store Level**
  - New Entrants
  - Digital Technology / Digital Commerce
- **Consumer Level**
  - Rise of the Millennial / Generation X
  - Digitally Engaged Consumer
  - Radical Transparency

The Good News for Food Retailers is That Millennials and Gen Xers are Willing to Spend $ on Food…

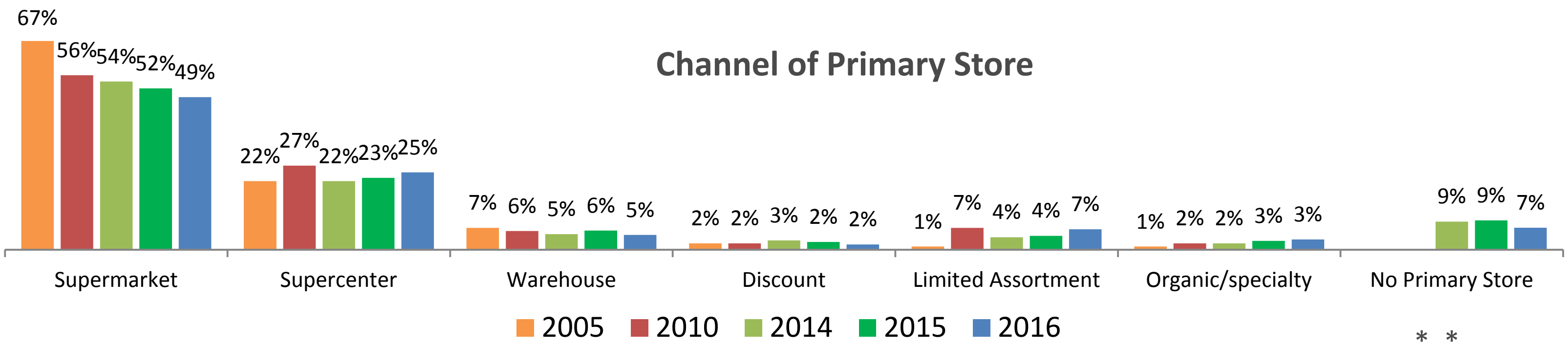
Weekly Household Grocery Expenses – By Age Group

	Average Weekly Spending	At Primary Store	Primary Store %
Millennials (18-37)	$117.19	$87.04	74%
Generation X (38-51)	$122.81	$91.34	74%
Boomers (52-70)	$93.02	$72.68	78%
Matures (71+)	$82.82	$66.89	81%

…The Bad News is That They Are Slightly Less Loyal to Their Primary Store Than Other Age Groups

FMI, *U.S. Grocery Shopper Trends 2016*

This Trend is Driving a Rise in Multi-Channel Shopping Among Consumers:
Shoppers average 3.7 different stores a month



Channel shopping frequency and loss of primary store

Fairly Often/Almost Always visit	2015	2016
Regular full-service supermarket	86%	85%
Supercenter	48%	54%
Conventional discount store	33%	38%
Warehouse Club store	28%	29%
Limited Assortment	18%	21%
Dollar store	16%	20%
Drug store	17%	18%
Natural + Organic store	14%	13%
Convenience store	5%	8%
Ethnic food store	6%	7%
Online-only food store	5%	5%

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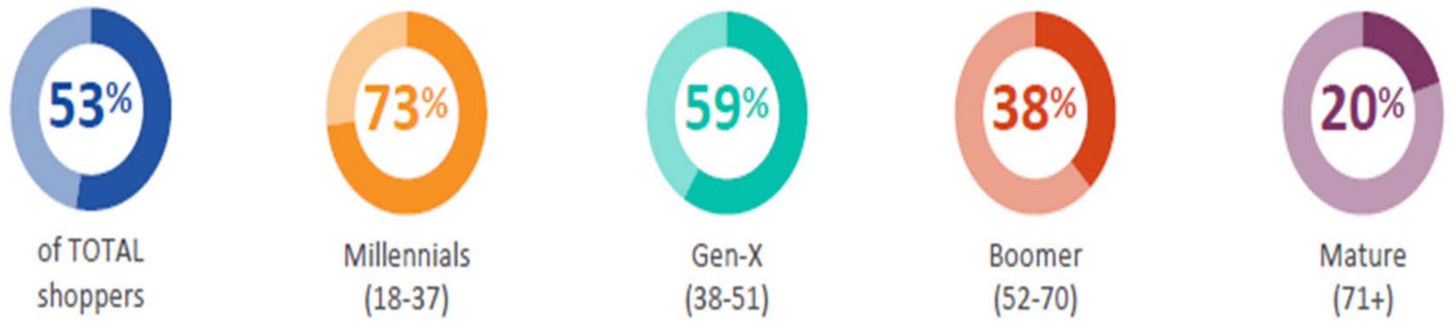
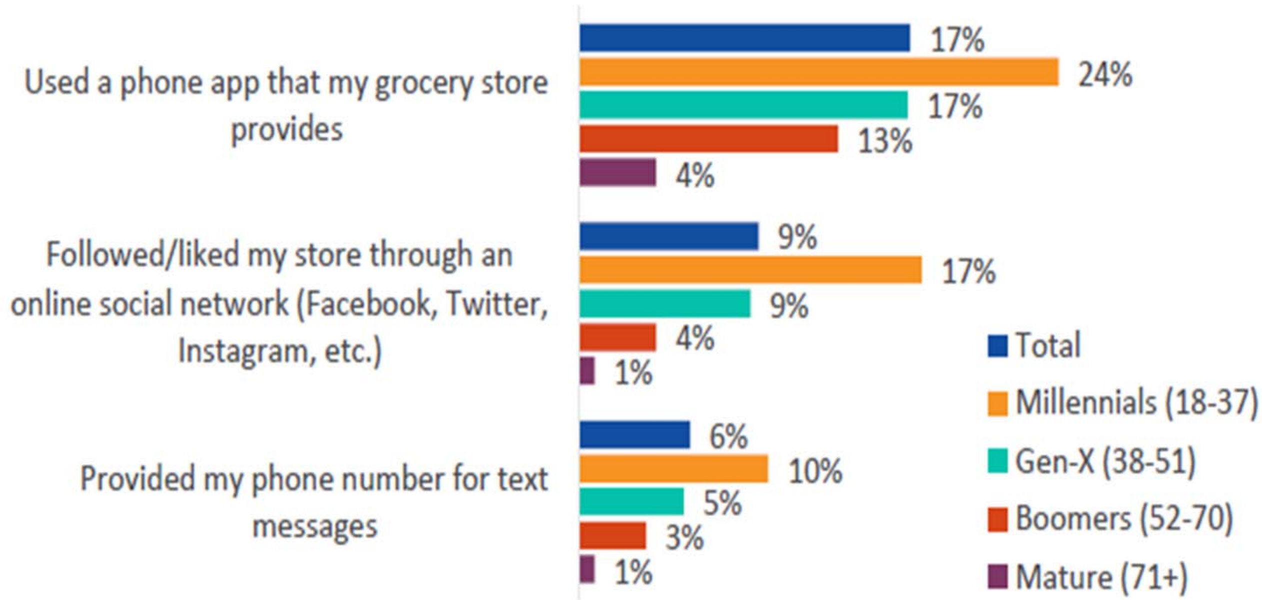
Source: FMI U.S. Grocery Shopper Trends, 2016.

In Addition, Consumers are Increasingly Planning, Shopping and Exploring Food Culture Through Social Media



Source: FMI U.S. Grocery Shopper Trends, 2016. Q: "Thinking about all the ways you plan, shop for, enjoy and share food experiences, which of these social networking and other tools have you used for something food-related at least once a month?" n=1,005. (See Appendix: Table A.18)

Online Tools Are Playing a Bigger Role in How Consumers Interact With Retailers

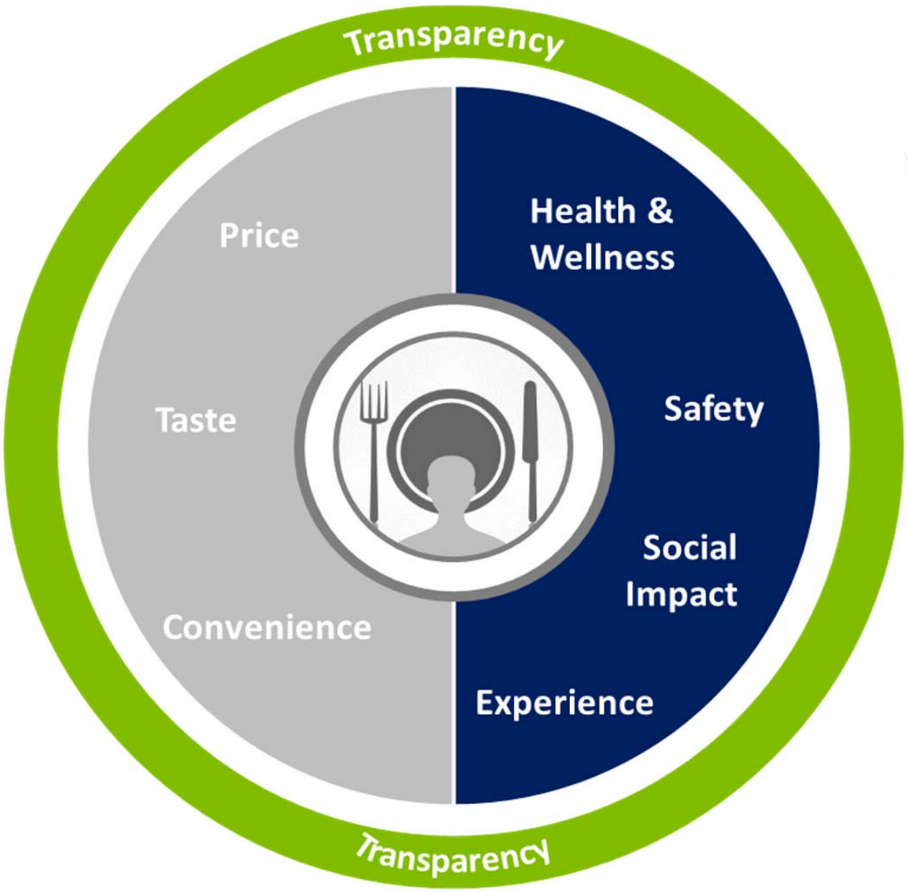


Source: FMI U.S. Grocery Shopper Trends, 2016. Q: "In which of the following ways have you engaged with a supermarket or grocery store in the past 12 months?" n=1,005. (See Appendix: Table A.17)

The New Consumer Isn't Just Digitally Engaged – They're Engaged With Where Their Food Comes From, How It is Produced and How It Impacts Their Life

How Do You Balance "Value" with "Values"?

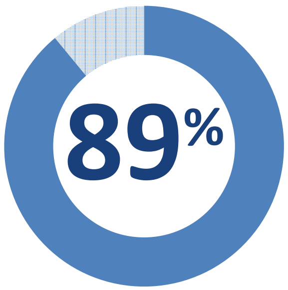
Evolving Consumer Value Drivers



- Consumers are actively shaping and EXPANDING the number of DRIVERS they incorporate into their food purchasing DECISIONS

Source: Deloitte, Capitalizing on the Shifting Food Value Equation (Report for FMI and GMA).

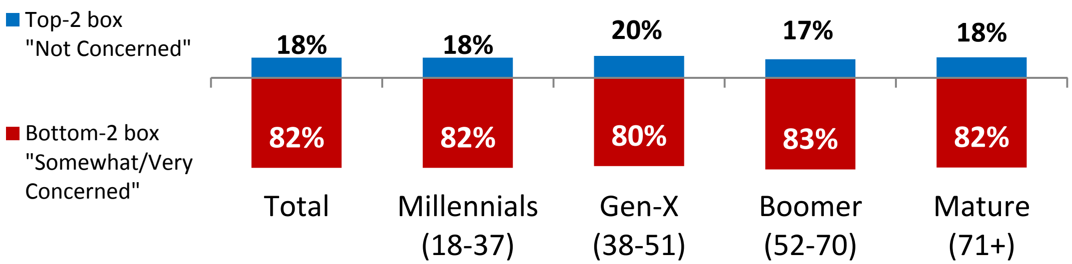
Shoppers Believe That Eating Food Prepared at Home is Healthier for Them Than Eating Out



of Shoppers believe eating ***AT HOME is HEALTHIER*** than eating at a restaurant

Yet, most are concerned they're ***NOT GETTING ENOUGH GOOD NUTRITION*** in the food they eat

Shopper concern about the nutritional content in their food



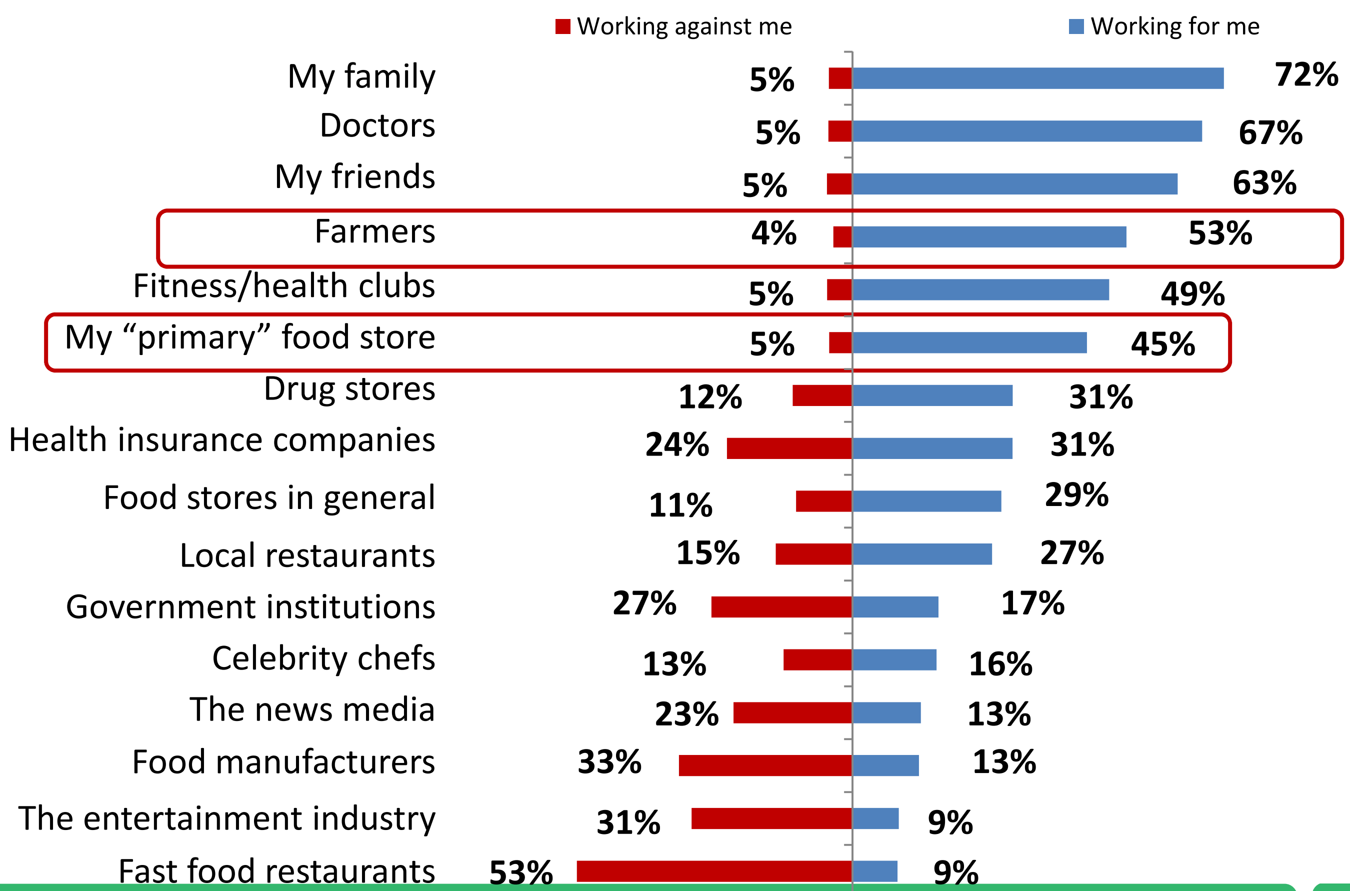
Why concerned?

61%	I'm concerned about my health in general
44%	Some of the food I eat has too much of something I need to avoid
22%	The foods I eat aren't nutritious enough in general
19%	I'm not getting enough of specific nutrients I need
18%	I have a specific health concern that affects my food choices

Source: FMI U.S. Grocery Shopper Trends, 2016. A18: "

Shoppers Recognize Farmers & Their Primary Store as Their Allies

When it comes to helping you stay healthy, which of these groups tend to be on your side and which tend to be working against you?



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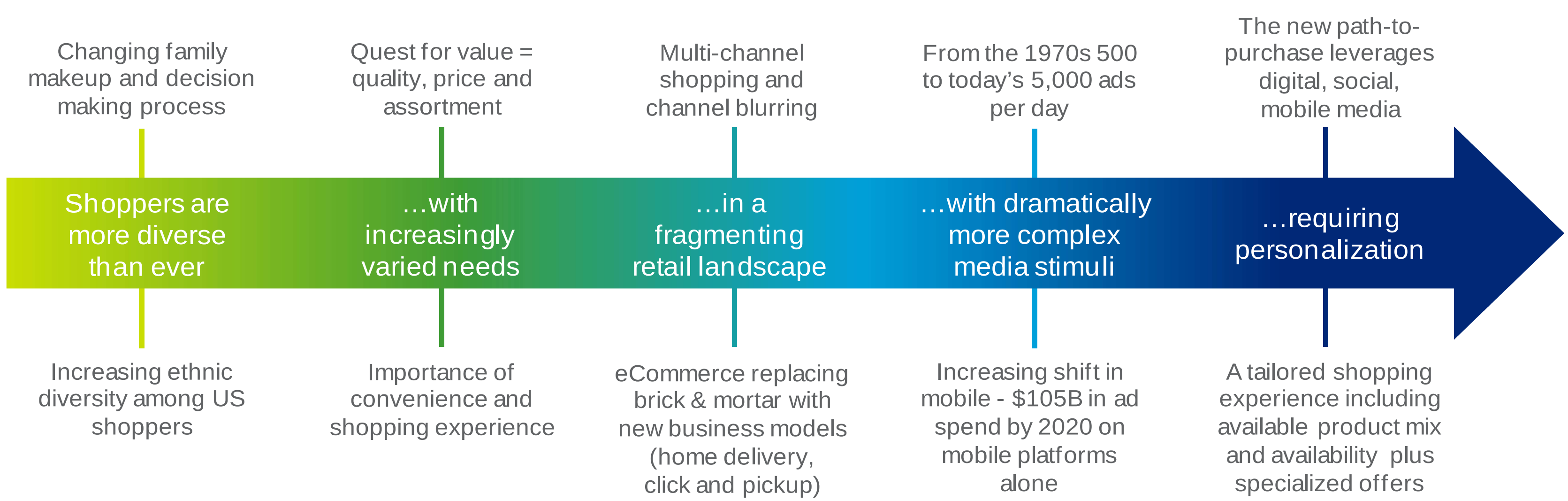
Source: FMI U.S. Grocery Shopper Trends, 2016.

The Consumer Landscape



Source: IRI: The Connected Consumer

So, how is the "new consumer" changing the retail landscape?

"Revolution" isn't hyperbole – technology and the new consumer are likely to create a retail environment that looks very different from today's.

FMI's CEO Laid Down a Challenge to Our Industry – Rethink How You See Competition

I would humbly suggest we…consider upgrading and modernizing our concept of competition, because I fear that if some or all of us in this room consider those sitting around us as our primary competition, we're engaging in an outdated mode of thinking. I believe our primary threat lies elsewhere.

I would submit that restaurants, online, and mail order kits are grabbing more shares of the 14 meals and 14 to 21 snacking occasions a week than your traditional supermarket competition is. Consumers do not make distinctions between foodservice and retail. They simply want their desire for their next meal to be met.

And if we don't compete well with these alternative venues and emerging channels, the slice of the pie the traditional food retailer competes for will just keep getting smaller.

A Key Component of Succeeding in an Omnichannel Environment is Building Successful Digital Engagement

Six Keys for Online Success

1. Trust
2. Value
3. Experience
4. Assortment
5. Convenience
6. Personalization

Source: FMI & Nielsen, The Digitally Engaged Food Shopper, 2017.

Online Sales: A Deeper Dive

Online Food and Beverage Sales Could Reach $100 Billion by 2025

	Total Online Sales	% of Retail Sales	Grocery Store EQ
2016	**$20.5 Billion**	**4.29%**	**764 Stores**
2025 Conservative	**$44.6 Billion**	**8.51%**	**1,659 Stores**
2025 Moderate	**$72.6 Billion**	**13.8%**	**2,702 Stores**
2025 Aggressive	**$103 billion**	**19.7%**	**3,844 Stores**

Source: FMI & Nielsen, The Digitally Engaged Food Shopper, 2017.

Five Key Trends Driving the Move Online: This is Not the End of Brick and Mortar

- Consumers are already shopping for groceries across channels and this will accelerate.
- Large-volume center store categories will migrate online.
- Retailers and manufacturers are experimenting to find their way online.
- Grocery will come online faster than other industries.
- Younger, newer and more digitally engaged shoppers will adopt new technologies faster.

Source: FMI & Nielsen, The Digitally Engaged Food Shopper, 2017

Retailers Are Innovating to Compete Online, But Challenges Remain

- **Direct to Consumer Sales**
  - Requires a Significant Investment in Distribution Networks and/or Supply Chain Partnerships
  - Shipping Direct to Consumers Profitably is Challenging Even for Established E-Retailers

- **Home Delivery**
  - Creates Personnel Challenges – Who Will Pick, Pack and Deliver an Order
  - Requires Consumers to Be Home and Threatens the "Convenience Factor"
  - Creates New Cost Center With No Guarantee of Overall Sales Increase

- **Click and Collect**
  - Tough Balancing Act Between Consumer Needs and Employee Training and Expectations
  - New Cost Center
  - Will Consumers Pay a Premium?

Source: FMI & Nielsen, The Digitally Engaged Food Shopper, 2017

Even Online, Consumers Will Demand “Value” and “Values”

Transparency = Loyalty

56%

Of Consumers Say They Would Very Likely Remain Loyal to a Brand for Life If That Brand Offers Complete Transparency

Source: Label Insight

Consumer Information Transparency Initiative

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Thank You

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