The Value of the Commissary Shopper

NAVIGATING THE TRANSFORMATION

May 17, 2018
Presented by Paul Lainis
EVP, Consumer & Shopper Marketing
Executive Summary

• Economy is solid; CPG is struggling

• Competitive landscape is undergoing a massive evolution

• To win, move quickly and deliberately
The U.S. Economy Is on a Positive Trajectory

- **Economic Growth**: 3.0% Q3 2017
- **Inflation**: 2.2% Sep. 2017
- **Avg. Price per Gallon of Gas**: $2.60 Oct. 2017
- **Retail Sales**: +4.4% Sep. 2017
- **Unemployment Rate**: 4.1% Oct. 2017
- **Population**: 326.2M Nov. 2017
- **Annual Growth**: 0.7%

Source: U.S. Census Bureau.
Projections for the Remainder of the Year are Strong

**Economic Growth**
- 5.2% (CY 2018P)

**Inflation**
- 2.8% (CY 2018P)

**Retail Sales**
- +4.8% (CY 2018P)

**Unemployment Rate**
- 3.8% (CY 2018P)

Source: Moody’s
Still, Industry Growth Has Been Lackluster, Particularly During the Past Year

Total CPG—Dollar and Unit Sales Trend
CY 2013 – CY 2016

Source: IRI CSIA, All Outlets, CY 2013 – CY 2016, 52 weeks ending Nov. 05, 2017 vs. YA, NBD aligned.
CPG Industry Growth Is Weak; Price Is Driving Dollar Growth

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
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<tbody>
<tr>
<td><strong>Jan.</strong></td>
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<tr>
<td><strong>Feb.</strong></td>
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<tr>
<td><strong>Mar.</strong></td>
<td></td>
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<tr>
<td><strong>Apr.</strong></td>
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**Monthly Dollar Sales Change**

Total CPG*

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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</thead>
<tbody>
<tr>
<td><strong>Jan.</strong></td>
<td></td>
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<tr>
<td><strong>Feb.</strong></td>
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<tr>
<td><strong>Mar.</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Apr.</strong></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Source:** IRI Market Advantage™, Jan.–April 2018 and same periods prior two years; MULO-C Total CPG does not include random weight data
DeCA’s Pricing Power Also Limited To Cover Unit Declines

**Monthly Dollar Sales Change**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan.</td>
<td>-9.5%</td>
<td>-6.1%</td>
<td>-8.4%</td>
</tr>
<tr>
<td>Feb.</td>
<td>-6.6%</td>
<td>-5.4%</td>
<td>-7.2%</td>
</tr>
<tr>
<td>Mar.</td>
<td>-6.8%</td>
<td>-5.3%</td>
<td>-4.2%</td>
</tr>
<tr>
<td>Apr.</td>
<td>-6.1%</td>
<td>-4.2%</td>
<td>-7.2%</td>
</tr>
</tbody>
</table>

**Monthly Unit Sales Change**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan.</td>
<td>-12.7%</td>
<td>-10.2%</td>
<td>-10.2%</td>
</tr>
<tr>
<td>Feb.</td>
<td>-9.9%</td>
<td>-8.6%</td>
<td>-8.5%</td>
</tr>
<tr>
<td>Mar.</td>
<td>-7.6%</td>
<td>-6.3%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Apr.</td>
<td>-8.5%</td>
<td>-8.5%</td>
<td>-8.5%</td>
</tr>
</tbody>
</table>

Source: IRI Market Advantage™, Jan.–April 2018 and same periods prior two years; DeCA ConUS (ex AK/HI Total CPG does not include random weight data)
DeCA Captures 21% of Shoppers’ Spending; Share Is Down >1 Point Versus Year Ago

Share of Shopper Wallet
by Channel, 2018

Point Change vs. Year Ago

Source: IRI CSIA, Data Ending Apr 22, 2018, NBD aligned
Shoppers have steadily increased trips to Club and Dollar, while decreasing trips to Drug and Mass

### Total CPG—Trips by Channel

<table>
<thead>
<tr>
<th>Channels</th>
<th>Retailer Trips per Shopper</th>
<th>% Chg. vs. YA</th>
<th>% Chg. (CY 2017 – CY 2014)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery</td>
<td>54.7</td>
<td>0.8%</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Club</td>
<td>12.4</td>
<td>1.5%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Drug</td>
<td>11.0</td>
<td>-2.9%</td>
<td>-15.4%</td>
</tr>
<tr>
<td>Mass/Supercenter</td>
<td>8.7</td>
<td>-3.0%</td>
<td>-12.0%</td>
</tr>
<tr>
<td>Dollar</td>
<td>13.5</td>
<td>2.0%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Health/Vitamin</td>
<td>3.1</td>
<td>1.8%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Military</td>
<td>16.9</td>
<td>-0.7%</td>
<td>-11.9%</td>
</tr>
</tbody>
</table>

Notes: Walmart not included in grocery or mass/super.
Source: IRI CSIA, All Outlets, CY 2014 – CY 2017, 52 weeks ending Apr. 22, 2018 vs. YA
BIG SHIFTS UNDERWAY IN THE RETAIL MARKETPLACE
The U.S. Online Grocery Market is on Track to Reach $34.7B by 2022…

During the next five years, grocery e-commerce is expected to grow to $34.7B. This represents CAGR growth of 18.1 percent when compared to CAGR of 3.6 percent for the overall CPG market during the same period.

Source: IGD Retail Analysis—Grocery E-commerce in the USA.
Driven by A Number of Factors

Rapid Rollout of Store Pickup

• Stores as convenient collection points
  – Kroger—ClickList at 650 Kroger locations; testing home delivery in Cincinnati (The Grocery Runners)
  – Walmart—optimizing more than 4,000 stores for e-commerce pickup; more than 1,000 stores added already, with 300-400 more planned yearly for the next five years

Meal Delivery Services

• Meal kit delivery services are growing at a rapid pace.
  • Pure play, such as Blue Apron, Hello Fresh and Plated
  • Grocers entering a new sector: Walmart and Kroger are testing a curb-side pickup service from eMeals

Third Party Partnerships

• Instacart—with Whole Foods, Wegmans and Aldi
• Postmates—with 7-Eleven
• Shipt—with Costco, Target, Kroger, Publix and Meijer
• Uber—with Walmart

Source: IGD Retail Analysis—Grocery E-commerce in the USA; Wall Street Journal.
How Important is Online Ordering?

55% of Millennials and 45% of Gen X’ers Say They Intend to Purchase Groceries Online in the Coming Year

Likelihood of Purchasing Groceries Online in the Coming Year
% of Respondents

<table>
<thead>
<tr>
<th></th>
<th>Very likely</th>
<th>Somewhat likely</th>
<th>Not very likely</th>
<th>Not at all likely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total U.S.</td>
<td>31%</td>
<td>29%</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td>Millennials</td>
<td>18%</td>
<td>27%</td>
<td>27%</td>
<td>28%</td>
</tr>
<tr>
<td>Gen Xers</td>
<td>20%</td>
<td>35%</td>
<td>27%</td>
<td>18%</td>
</tr>
<tr>
<td>Boomers</td>
<td>34%</td>
<td>31%</td>
<td>17%</td>
<td>12%</td>
</tr>
<tr>
<td>Seniors</td>
<td>46%</td>
<td>21%</td>
<td>12%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: Consumer Connect™, Q4 2017
Many, Especially Younger Shoppers, Feel Shopping Online Saves Money and Offers Convenience

Gen X’ers and Millennials also cited reduced impulse buying and ease of finding needed items.

Online order/in-store pickup (click-and-collect) allows me convenience without the added shipping fee

Buying online allows me to find lower-priced food and beverage options

Source: Consumer Connect™, Q4 2017
Retail’s Greatest Change Since the Advent of the Automobile
### Accelerating Innovation in Order and Delivery Options…

<table>
<thead>
<tr>
<th>Company/Marketplace</th>
<th>Announcement</th>
<th>Source/Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albertsons</td>
<td>Announces new Digital Marketplace providing for consumer-direct ordering and shipping</td>
<td>Albertsons Companies 03/20/2018</td>
</tr>
<tr>
<td>Albertsons Companies and Instacart</td>
<td>to bring same-day grocery delivery to 1,800-plus stores</td>
<td>Progressive Grocer 11/28/2017</td>
</tr>
<tr>
<td>Amazon and Whole Foods Market</td>
<td>Announce the introduction of free two-hour delivery through Prime Now</td>
<td>Amazon Company Release 2/8/2018</td>
</tr>
<tr>
<td>Prime Now delivery</td>
<td>makes Whole Foods competitive on price with Kroger in Cincinnati</td>
<td>Fooddive.com 3/29/2018</td>
</tr>
<tr>
<td>Walmart</td>
<td>Plans to expand its popular Online Grocery Delivery option to more than 40% of U.S. households</td>
<td>Walmart Release 3/14/2018</td>
</tr>
<tr>
<td>Kroger</td>
<td>Announces 1,000th ClickList Store and Introduces Seamless Digital Shopping Experience</td>
<td>Kroger Company Release 12/18/2017</td>
</tr>
</tbody>
</table>

…These are Just a few Examples.
The Brick-and-Mortar World Is Being Heavily Impacted by Market Entries and Acquisitions

Southeastern Grocers files for bankruptcy, announces closing of 94 stores  
**SEG Release 03/15/2018**

Dollar General plans to open 900 new stores, remodel 1,000 existing sites and relocate 100 stores  
**Chain Store Age 12/7/2017**

Sam’s Club announces closing of 63 warehouses across the US.  
**Walmart Release 1/11/2018**

Albertsons Companies announces a merger agreement with Rite Aid.  
**Albertsons Release 2/20/2018**

The Kroger Co. agrees to sell its 700+ store c-store business  
**Progressive Grocer 2/05/2018**

Bodega Latina Corp will acquire Fiesta Mart’s 63 Hispanic-themed stores.  
**Progressive Grocer 3/26/2018**
Activity by Three Major Players Is Really Turning Heads

Value and Private Brands at the core of retail changes
Polar ends of the value spectrum outperforming middle-of-the-road peers*

*Source: Deloitte
Lidl’s U.S. Entry Is Resonating with Some Customers, But Not with All

Initially some good news…
- 20% are shifting much more of their shopping over to Lidl stores
- Half said their experience was better than expected
- 58% said they definitely will visit Lidl again in the future

But sales are soft…
- 16% said Lidl was worse than expected
- Repurchase intent dropped by more than half (from 44% to 21%) from fall opening to March, 2018
Lidl’s Market Entry has had Mixed Results

Shoppers are the big winners…

- Competition has intensified
- Prices have fallen

The U.S. Market Has Challenged Lidl

- Aggressive expectations have not been met
- Future rollout plans have been tempered

Recommendations for Competitors

- Personalization is key!
- Focus on variety, freshness and quality
ALDI Growing Quickly by Offering Value

With 1,600 Stores Today and Adding 900 More by 2022
Aldi Could be the Third-Largest Grocery Chain

93% said that pricing/value drove them to ALDI
61% good/affordable price is what they liked about ALDI
FRESH PRODUCE (77%) was the top product purchased
Selection of Store Brand products & Unique products offered are liked at ALDI over other retailers

Half Said Their experience Was Better Than Expected
1/3 Shifting Much More of Their Shopping to Aldi
Aldi’s Expansion Quietly Continues, and Shoppers are Very Aware

Shoppers will be the big winners here as well!

- 60% to 70% of markets experienced price declines when Aldi opened
- Impacts are small, but broad
- Savings opportunities abound

What to do?

- Know your own customers—identify and meet their needs
- Clean up your own house
- Focus on strengths
- Monitor and respond

Aldi’s prices are lower than many competitors’

(Figure showing price per volume comparison, edibles categories, IRI Consumer Network)

(Nancy Luna, Orange County Register/SCNG)
In February 2005, Amazon launched Amazon Prime, an all-you-can-eat express shipping membership program for about a million products.

Our vision was that fast delivery should be an everyday experience—rather than an occasional indulgence, and many skeptics thought we were crazy.

— amazon.com website
**Whole Foods Shoppers Expect Better Price and Delivery Options**

**Expected Shopping Benefits of Merger**

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better prices</td>
<td>59%</td>
</tr>
<tr>
<td>Better sales/coupons</td>
<td>38%</td>
</tr>
<tr>
<td>Amazon Prime discounts</td>
<td>38%</td>
</tr>
<tr>
<td>Whole Foods' brands sold and shipped at Amazon.com</td>
<td>32%</td>
</tr>
<tr>
<td>Amazon Prime delivery</td>
<td>29%</td>
</tr>
<tr>
<td>More frequent sales/coupons</td>
<td>29%</td>
</tr>
<tr>
<td>Whole Foods selling products on Amazon.com</td>
<td>27%</td>
</tr>
<tr>
<td>More Amazon Prime-only offers</td>
<td>26%</td>
</tr>
</tbody>
</table>

Only 18% of WF shoppers are aware of Amazon/WF benefits

*Whole Foods Amazon Study, March 2018*

Q4. In which of the following ways, if any, do you expect to benefit as a shopper to Amazon’s purchase of Whole Foods?
Benefitting From a Number of Key Attitudinal Shifts

- **Brand Agnostic Consumers**: Moving toward whatever meets their needs.

- **Less Brand Trust**: 42% of Americans find brands and companies less truthful today than 20 years ago.

- **“People around the world wouldn’t care if 74% of brands disappeared.”**
  - Havas Meaningful Brands Global Study 2017

- **Less Retailer Loyalty**: For most food categories, less than 1/3 of shoppers are loyal to a specific chain.

- **Less Channel Loyalty**: Shopping more channels today than 3 years ago.

  - 9.3 channels in 2017 vs 8.2 in 2014

Understanding Key Drivers of Behaviors Is Critical

Transparent & Simple
- 94% of consumers say they would be loyal to a brand that offers complete transparency
- 54% of consumers look for food/beverages with a short list of recognizable ingredients

Always On
- 77% of Americans own a smart phone
- Any time, any place - convenience as the new loyalty.
- They research, explore compare and share.
- 70% of consumers trust online suggestions more than brand statements.

Personal
- Want brands that align with their belief systems
- Only 49% of consumer say their main grocery store connects with them in a relevant way.
- 69% of engaged U.S. shoppers want to be able to give feedback to help improve the experience.

Value Is King
- 45% of grocery shoppers say they are visiting value-oriented stores more often
- 70% of consumers say technology has made it easier than ever to take their business elsewhere.
LESSON #1: Move Into the Fast Lane

- Enhance capabilities to gain a deep understanding of key customers and work to meet those needs better and faster!

- Tap into critical touchpoints along the shopper journey to strengthen brand equity and enhance brand image.

- Form retailer-supplier collaborative relationships to optimize campaigns throughout flight.

- Measure — in real time! — the impact of all interactions along the shopper journey and track consumer behavior change.

Create Experiences!
Atomization of Personalization

The kaleidoscope of demographic changes and income bifurcation and technology in the US is driving the atomization of American lives, how they plan and consume.

LESSON #2: Winning Is All About Personalization
Personalize the Experience for Each Shopper and Across the Entire Shopper Journey

Know What Key and Target Shoppers Seek

Engage Shoppers When, Where and How it Matters Most to Them

Deliver Against Needs and Wants at the Right Time, through the Right Channel and at the Right Price
Invest in Specialty Departments and Programs to Minimize Trips to Quick/Limited Service and Specialty Shops and Enhance Military Community Feel
Identify Priority Stores to Target Expansion of Ethnic/International Foods

15% of Stores in this Dallas RMA have an above average concentration of Hispanic & Asian HHs

<table>
<thead>
<tr>
<th>Select Dallas Stores</th>
<th>ASIAN HH INDEX</th>
<th>HISPANIC HH INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store #1</td>
<td>223</td>
<td>129</td>
</tr>
<tr>
<td>Store #2</td>
<td>265</td>
<td>123</td>
</tr>
<tr>
<td>Store #3</td>
<td>261</td>
<td>131</td>
</tr>
<tr>
<td>Store #4</td>
<td>141</td>
<td>116</td>
</tr>
<tr>
<td>Store #5</td>
<td>119</td>
<td>222</td>
</tr>
</tbody>
</table>
LESSON #3: Embrace Social Media

1/3 $240B by 2022

MILLENNIALS
Create 1:1 Relationships Through Personalized Campaigns Leveraging Digital Platforms
User-Generated Content Is a Trusted Source of Information

47% of millennials trust user-generated content

User-Generated Content Is a Trusted Source of Information

47% trust content created by brands vs. 25%

Tap Into Instagram to Drive Imagery Through Pictures

25% of millennials rate Instagram as their preferred platform

Competitive Landscape Is Changing: To Win, Move Quickly And Deliberately

- Get into the fast lane
- Personalize the shopper experience
- Embrace social media
QUESTIONS & NEXT STEPS

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