2006 Industry Shopper Study

Redefining the Retail Landscape

From Channels to Shopper-Centric Segments

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Cannondale…

Who are those guys?

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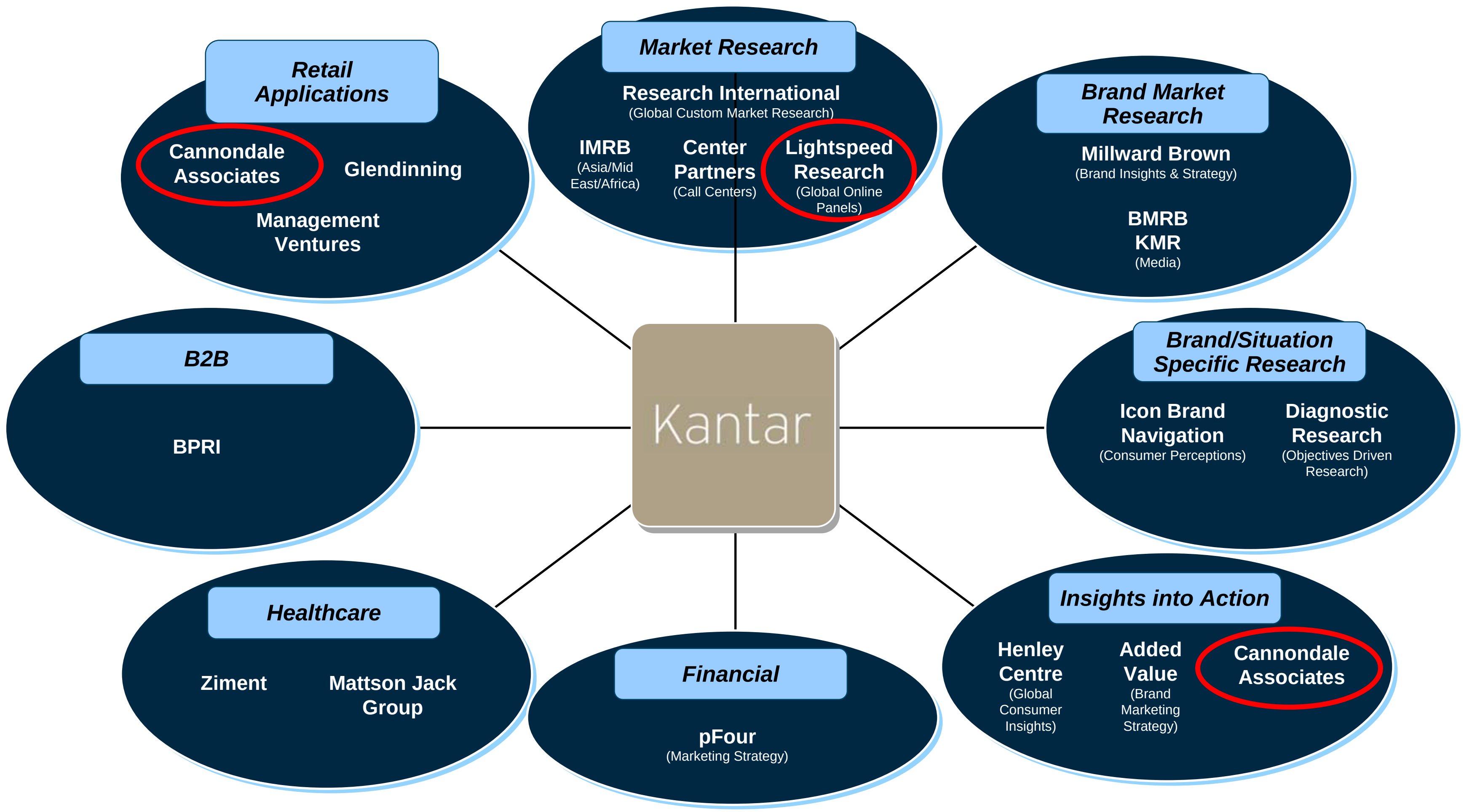
Cannondale and Lightspeed are part of the Kantar Group, WPP’s consulting and insights division



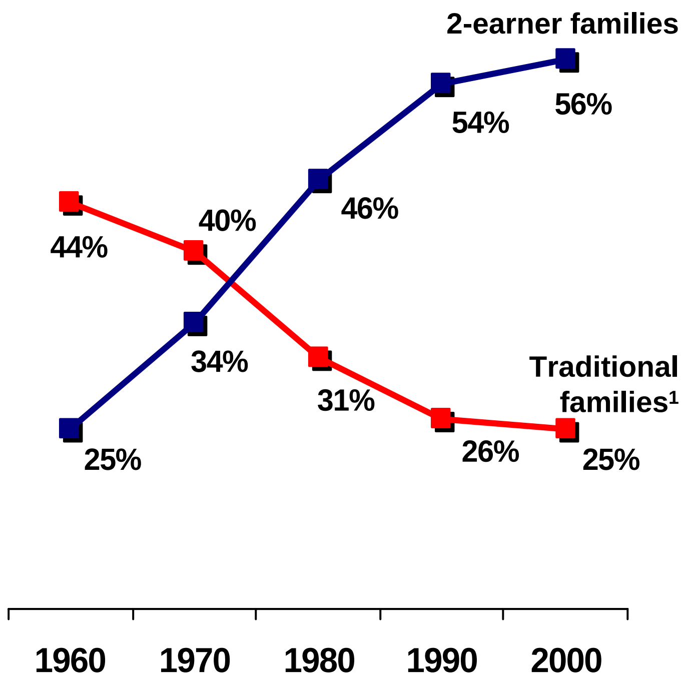
Agenda

- The Changing Consumer
- Study Objectives and Methodology
- Shopper Snapshot
- Retailer Segmentation Approach
- Retailer Segment Insights
- Shopper Study Recommendations

How has the consumer changed?

Consumers are working longer, but most show little gains in income

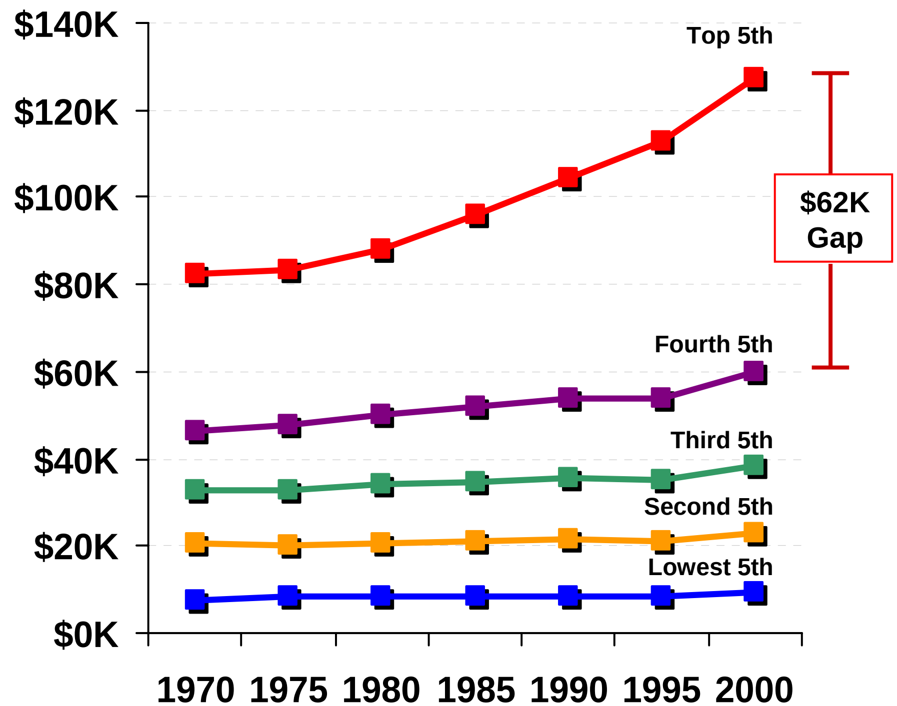
% of Families



Combined work hrs/wk²		57	66	70	72

U.S. Income Distribution

(Quintiles)



Consumers want convenience and value

(1) Married couples with children, one income
(2) Married couples
Source: U.S. Bureau of Census; US Bureau of Labor Statistics; www.ideabeat.com 7/00

In search of value, consumers have become less loyal and have shifted to value formats

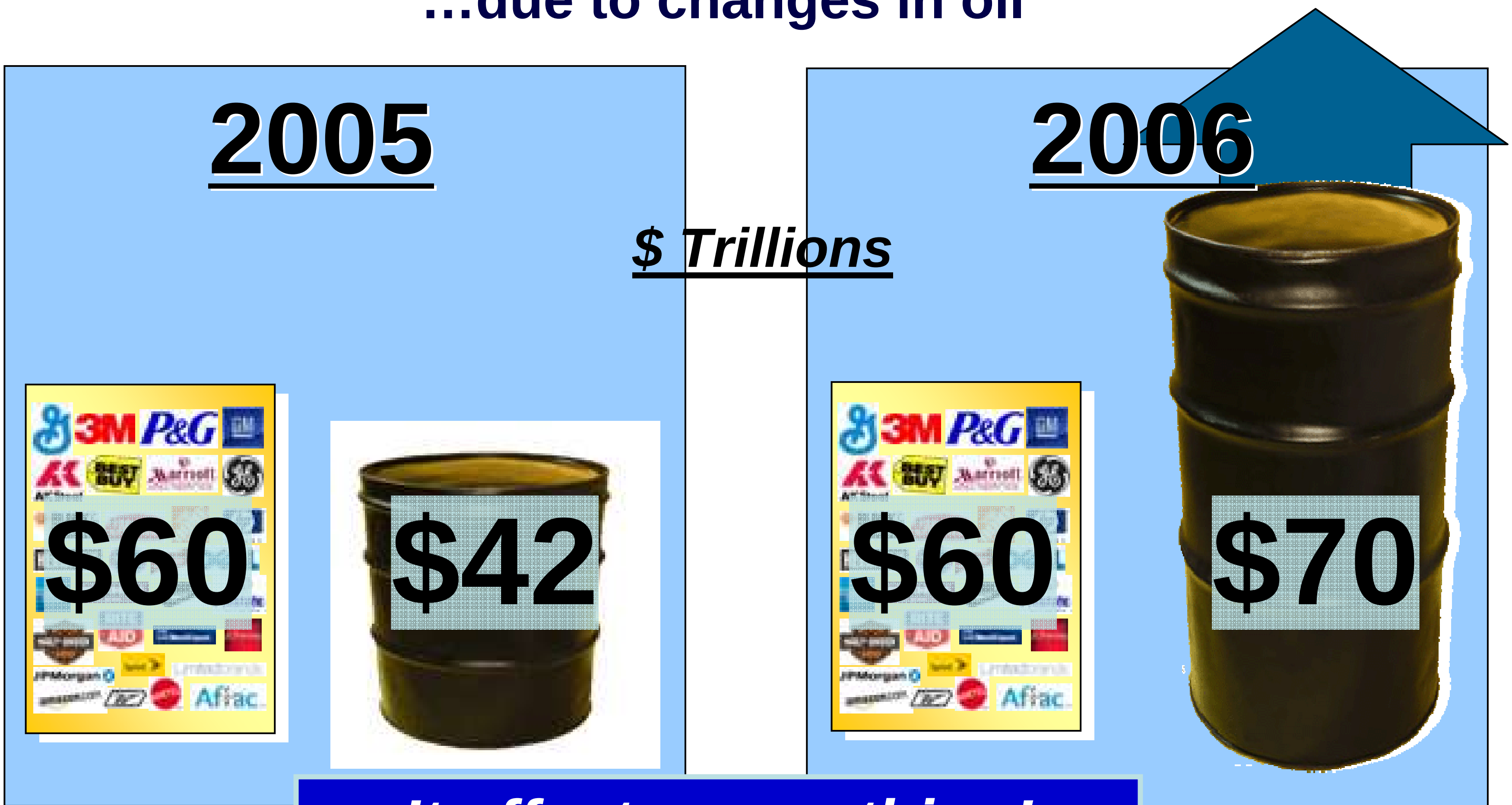
Less Store Loyal	**97% shop 5+ channels annually**
Less Brand Loyal	**+8 pts. in private label usage in 10 years**
Shift to Value Formats	**5-Year Change in Trips/Year**

5-Year Change in Trips/Year	
Grocery	**-17**
SC	**+2**
Dollar	**+3**

Source: IRI Times & Trends 9/04; PLMA 2002

The consumer will change more…

…due to changes in oil

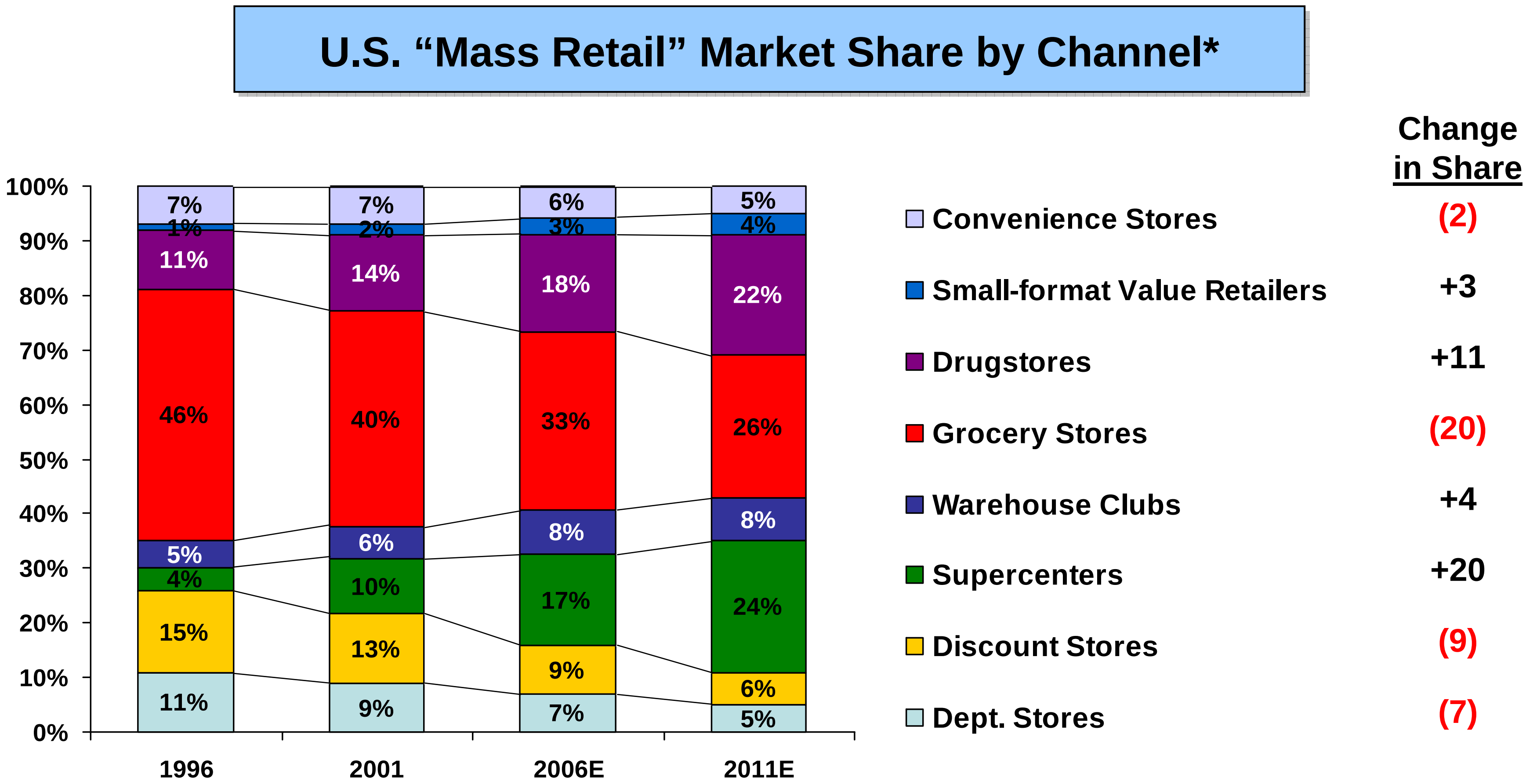


It affects everything!

Source: Thos. H. Lee Partners

Consumer changes have had a major effect on the current retailer landscape...

Grocery is getting squeezed



Leading retailers in 2010 will include those from outside traditional grocery

*1996-2011E, 2001 Total Sales = $1,050 billion
Source: Progressive Grocer annual reports; Retail Forward; NACS; NACDS

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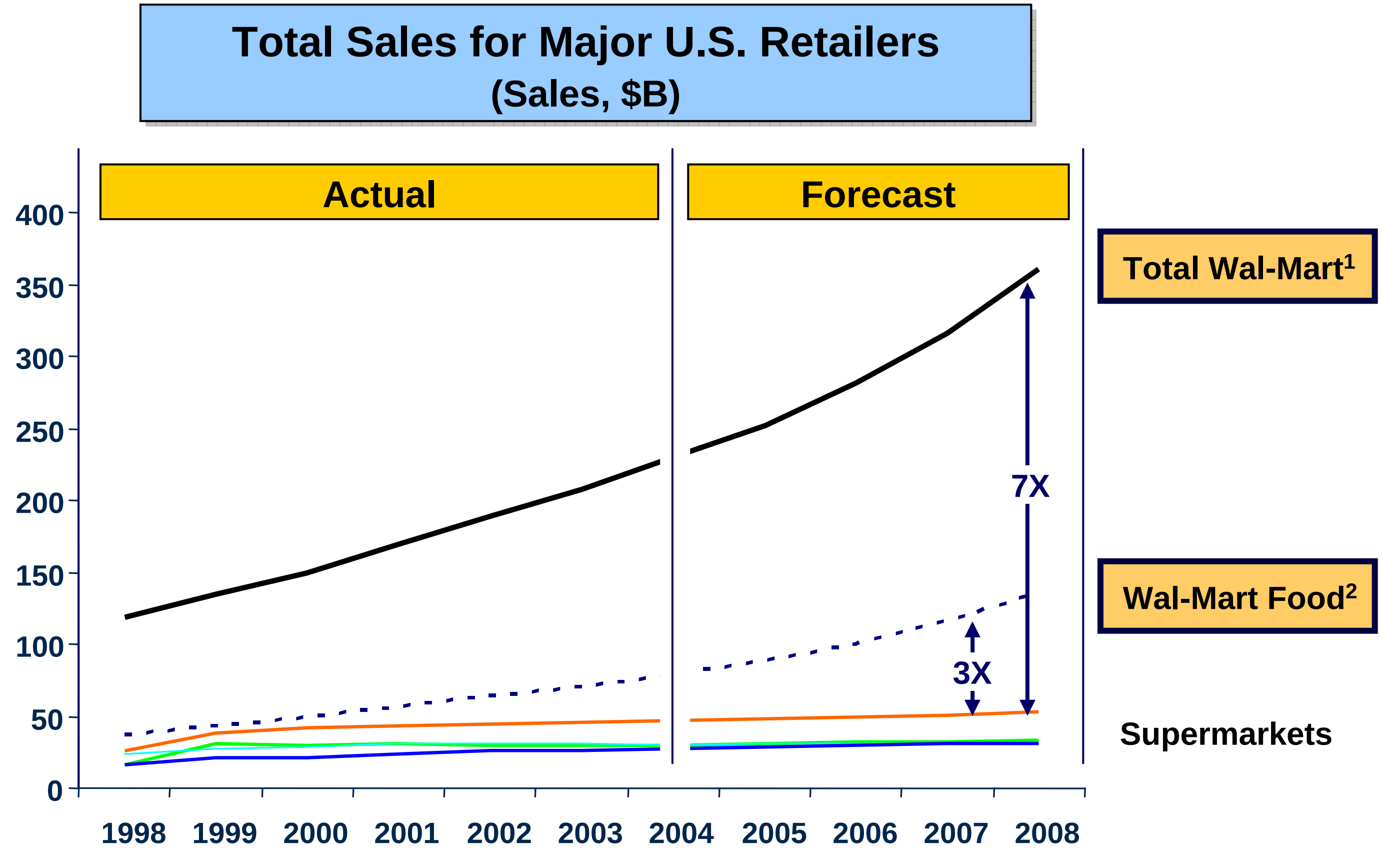
Wal-Mart accounts for a major part of this share shift

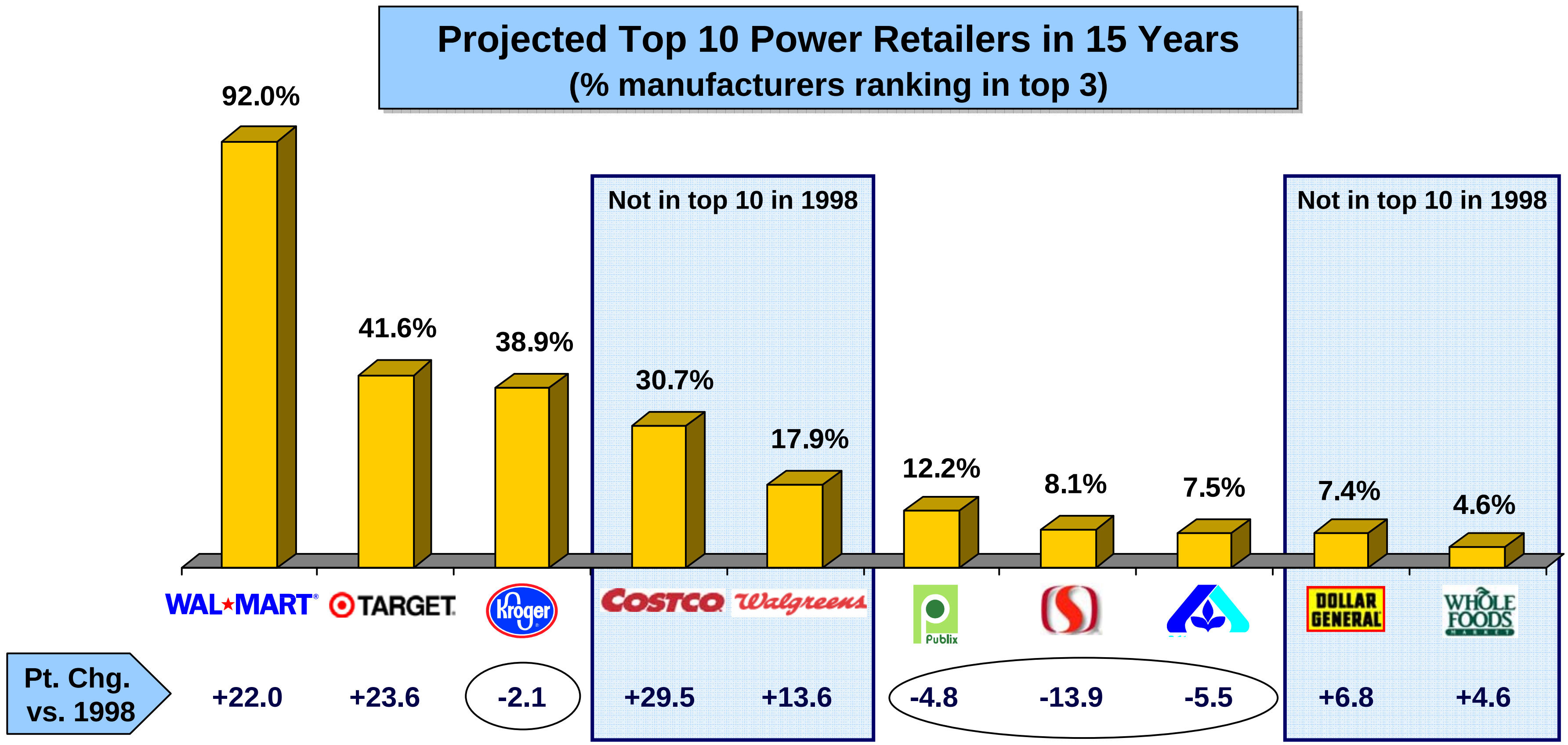
➢ **Wal-Mart grocery sales are growing three times faster than at supermarkets**



(1) Includes discount store, supercenters and Sam's in the U.S.
(2) Wal-Mart food sales from discount stores, supercenters and Sam's
Source: Company reports, MVI, Progressive Grocer

But Wal-Mart is only part of the picture

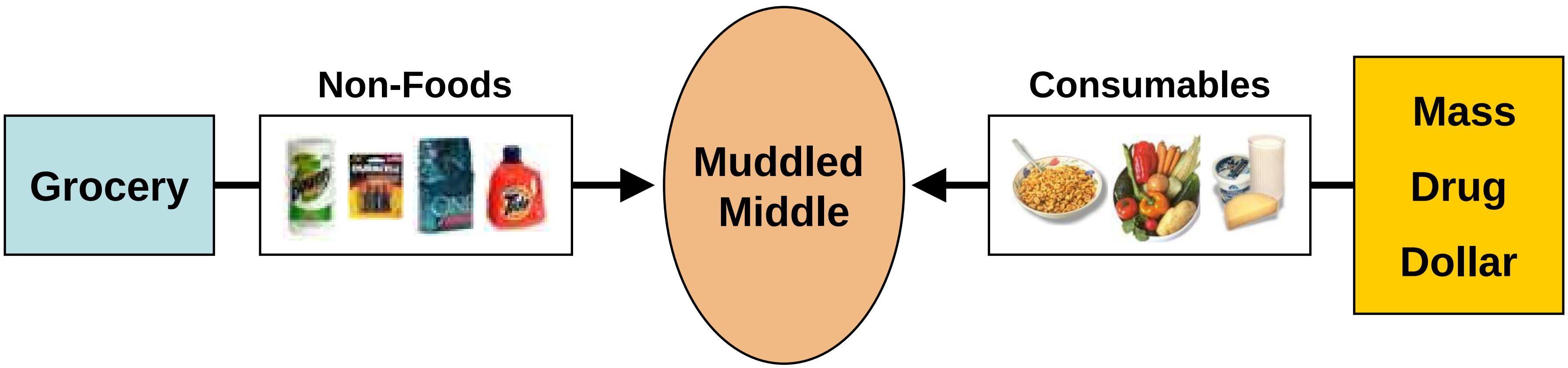
- Cannondale PoweRanking® survey highlights emergence of retail leaders outside of traditional grocery



Grocers are maneuvering to increase loyalty

Source: Cannondale Associates PoweRanking® surveys

To attract shoppers, retailers have added departments, and are finding themselves in the muddled middle

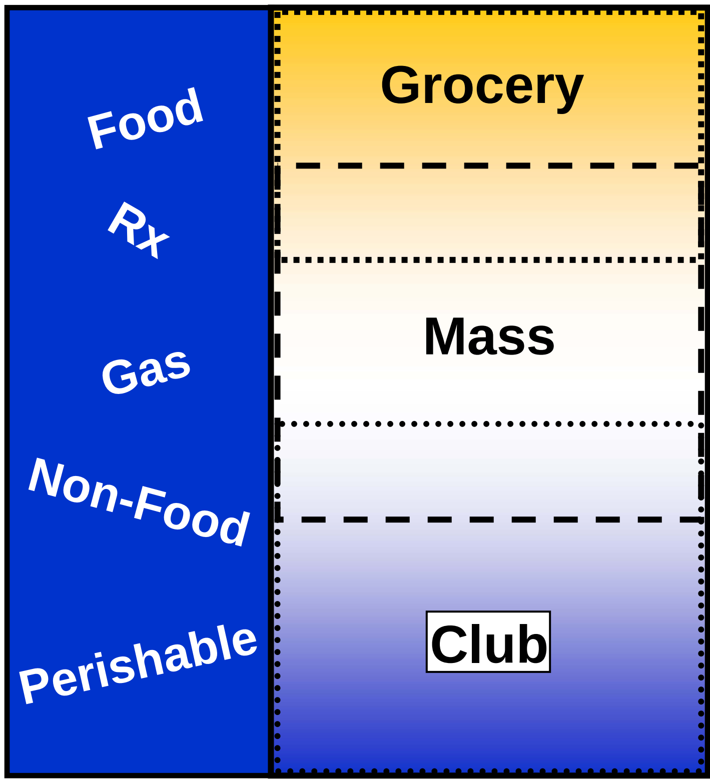


Shoppers go to the "grocery" store for prescriptions and to the "drug" store for fill-in groceries

Channels have blurred and are no longer a relevant lens for differentiation

Channels blur – retailers must differentiate

Traditional Channel Blurring



Retailer Differentiation

Retailer	Differentiation
SAFEWAY	Lifestyle solutions
WHOLE FOODS MARKET	Healthy indulgence
WAL★MART	Low price
TARGET	Upscale discount
SAM'S CLUB	Small business
COSTCO	Upscale business/ consumer

Cannondale Shopper Study

Objectives and Methodology

Cannondale conducted the industry shopper study to identify actions that can set retailers apart

2006 Industry Shopper Study

Objectives

- Understand shopper attitudes and behaviors
- Identify actions at retailer segments that
  - Enhance the shopping experience
  - Differentiate the retail segments

Methodology

- Online study among 5,000+ primary shoppers of groceries and other household basics
  - In conjunction with Lightspeed Research online panel
- 1,100 retail banners evaluated
- Fall 2005

Source: Cannondale Associates Industry Shopper Study, 2006

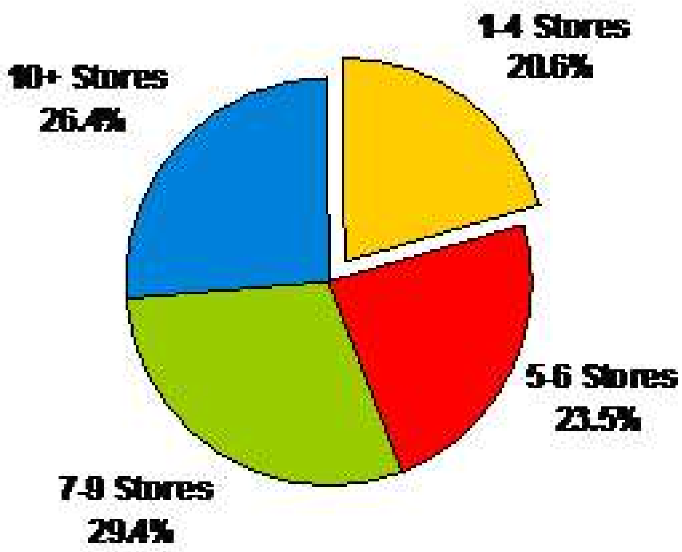
Cannondale Shopper Study

Overall Shopper Snapshot

In the study, shoppers confirmed their lack of loyalty…

- 79% shop 5+ retail banners
- Over ¼ shop 10+ banners

Number of Retail Banners Shopped in Past 3 Months for Groceries and Other Household Basics



…and their interest in the value formats

- Value-type retailers account for a significant share of trips and dollars

	Trips/Year	$/Trip	$/Year
Grocery	69	$66	$4554
C-store	28	$10	$280
Supercenter	25	$63	$1575
Drug	23	$29	$207
Mass	22	$49	$1078
Small Format Value	13	$23	$299
Dollar	12	$17	$204
Club	11	$110	$1210
Health	9	$41	$369

39% of trips

43% of $

Need to understand shopper motivations

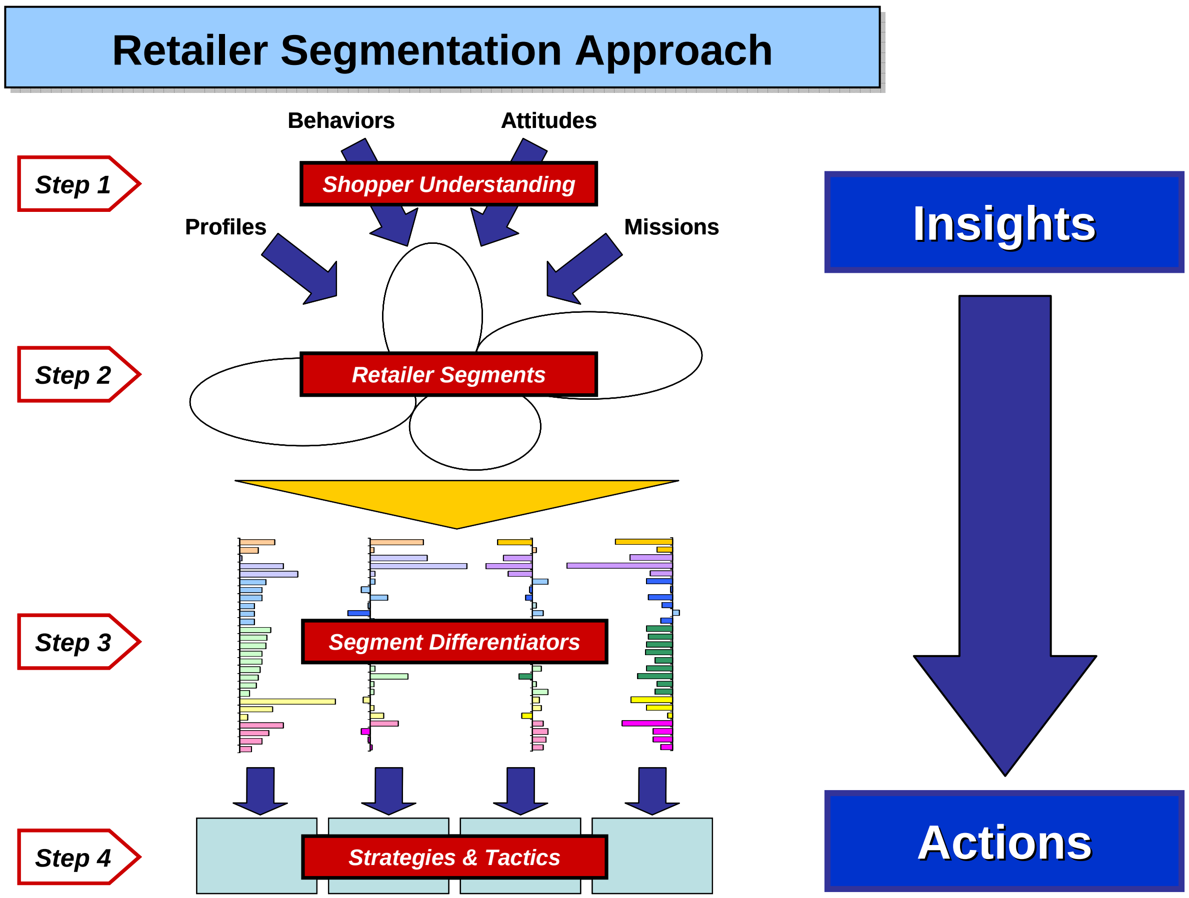
Source: Cannondale Associates Industry Shopper Study, 2006

Cannondale Shopper Study

Retailer Segmentation Approach

Cannondale developed a shopper-based approach to segment retailers

- **The <u>approach</u> rather than the actual segments are most important**



Insights to action is the focus

Source: Cannondale Associates Industry Shopper Study, 2006

Actionable results is Cannondale's *modus operandi*

"It's all about a destination with differentiation.

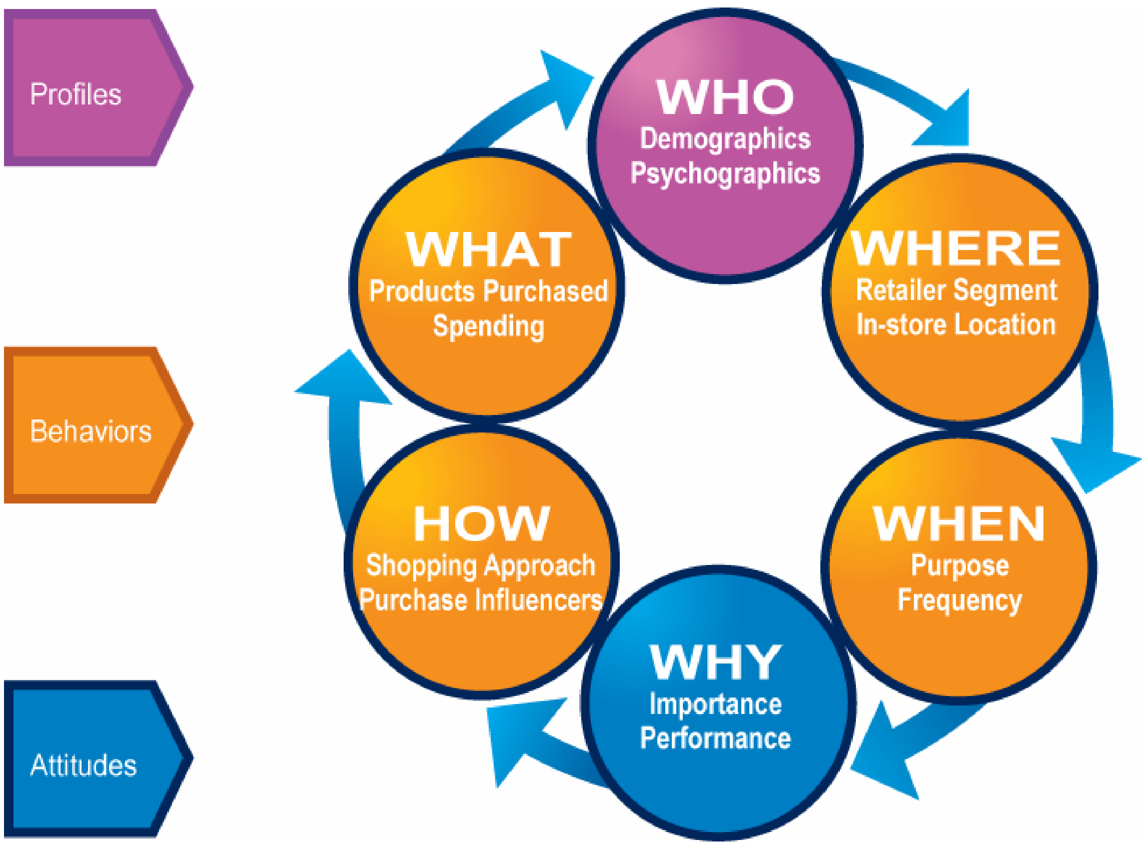
If retailers can't demonstrate distinct, meaningful benefits to shoppers, then they lose their reason for being.

Now with a clearly defined retailer segmentation approach, manufacturers can help retailers in developing a unique selling proposition."

Source: Cannondale Associates Industry Shopper Study, 2006

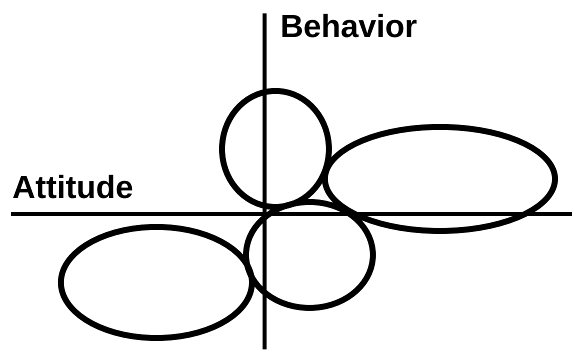
Step 1 consisted of thoroughly understanding shoppers in terms of their profiles, behaviors and attitudes

Shopper Understanding



Step 2 entailed grouping retailers according to 25 shopper attitudes and behaviors

BEHAVIORS	ATTITUDES			
	Convenience	Selection	Discounting	Store Environment
Time spent	Signage	Store brands	Shopper card program	Store services
Spending	Close by	Wide selection	Promotions	Helpful sales people
Frequency	One stop	Name brands	Everyday low price	Clean store
	Easy to find items	Latest products		Fun to shop
	Quick in & out	Consistent selection		
	Store hours	Quality merchandise		
		Bulk sizes		
		Product availability		
		Unique products		



Note: Attitude scores were measured by the performance of the retailer, weighted by the importance of the factor at that retailer
Source: Cannondale Associates Industry Shopper Study, 2006

Four retailer segments were identified

Retailer Segments

Behavior

Attitude

Big Shops

Have shoppers who:
- Spend a lot per trip
- Like the bulk products

Routine Replenishment

Have shoppers who:
- Make frequent trips
- Like shopper card program
- Enjoy store services
- Like wide/consistent selection

Quick Shops

Have shoppers who:
- Spend less time and money there
- Want to get in and out of the store quickly

Experience Makers

Have shoppers who:
- Spend less time shopping
- Like unique products

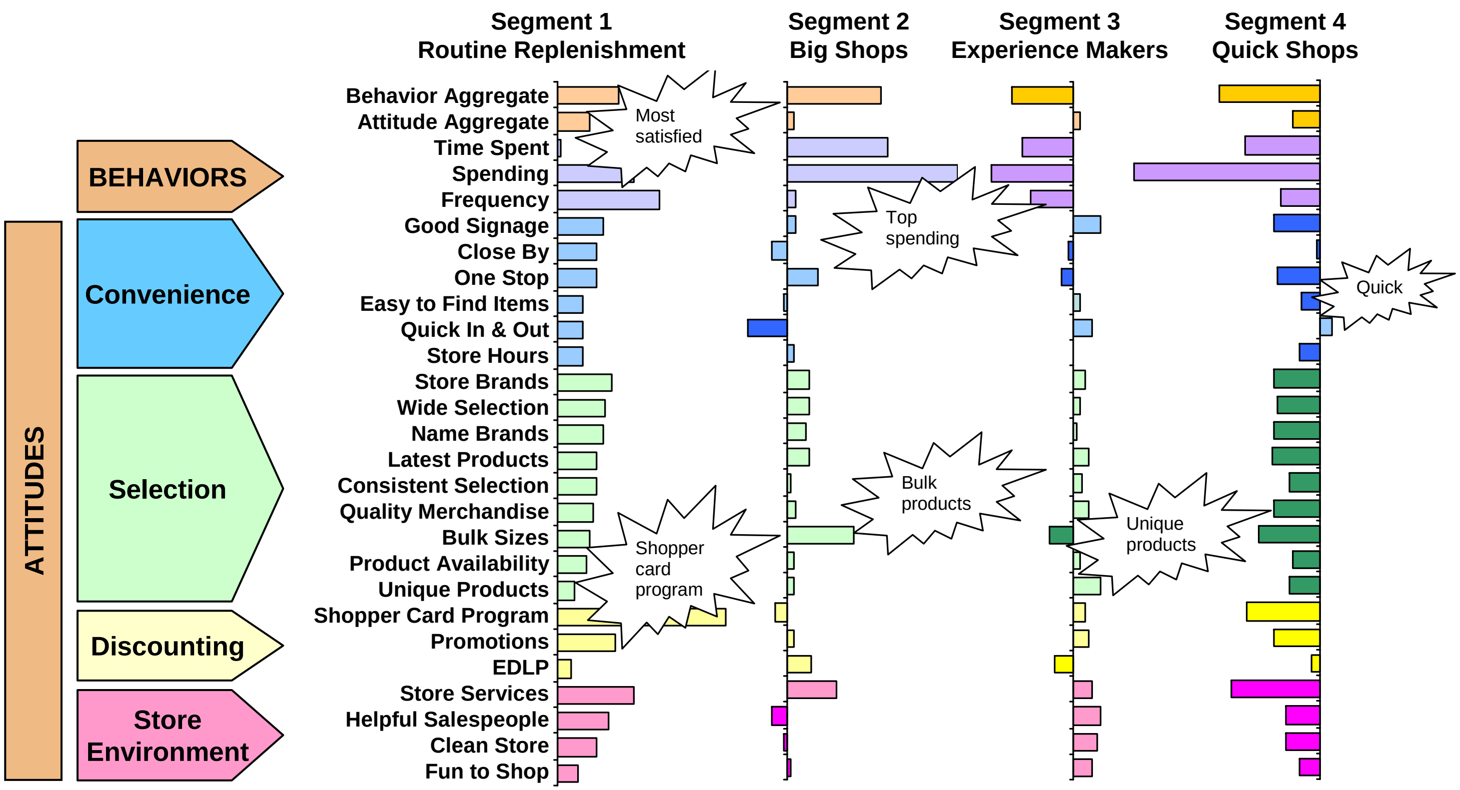
Source: Cannondale Associates Industry Shopper Study, 2006

Step 3 consisted of identifying elements that differentiated the retail segments

- **Routine Replenishment retailers excelled in frequency, spending and most attitude measures**

Segment Attitude and Behavior Differentiators

Behavior and Weighted Performance Indices Relative to Overall Retailer Average



Must examine strengths and challenges to develop the strategies

Note: Performance indices below are calculated <u>across</u> the segments and are weighted by importance to the shopper at their preferred retailer
Source: Cannondale Associates Industry Shopper Study, 2006

Step 4 mapped the strengths and challenges of each retailer segment

	Routine Replenishment	Big Shops	Experience Makers	Quick Shops
Strengths	• Frequency • Shopper card program • Store services	• Spending • Bulk sizes • Low prices	• Unique products • Good information • Helpful staff	• Quick in and out • Close by
Challenges	• Finding items • Unique products • Fun	• Quick in and out • Finding items • Helpful staff	• Spending • Name brands • Prices	• Basket size • Selection • Programs

…and identified retailer strategies and manufacturer actions that leverage these strengths and address the challenges

	Routine Replenishment	Big Shops	Experience Makers	Quick Shops
Strengths	• Frequency • Shopper card program • Store services	• Spending • Bulk sizes • Low prices	• Unique products • Good information • Helpful staff	• Quick in and out • Close by
Challenges	• Finding items • Unique products • Fun	• Quick in and out • Finding items • Helpful staff	• Spending • Name brands • Prices	• Basket size • Selection • Programs
Retailer Strategies	• **Encourage browsing**	• **Increase frequency**	• **Increase spending**	• **Build the basket**
Manufacturer Actions	• **Use efficient assortment tools to assure the right mix of products** • **Customize products, packaging and programs** • **Explore store layout and shelving configurations**	• **Provide product and package size variety** • **Improve store and aisle layout** • **Create convenience section**	• **Leverage unique product offerings** • **Add mainstream, high end consumables**	• **Add mainstream convenience foods while assuring quick shopping** • **Customize products and programs**

Source: Cannondale Associates Industry Shopper Study, 2006

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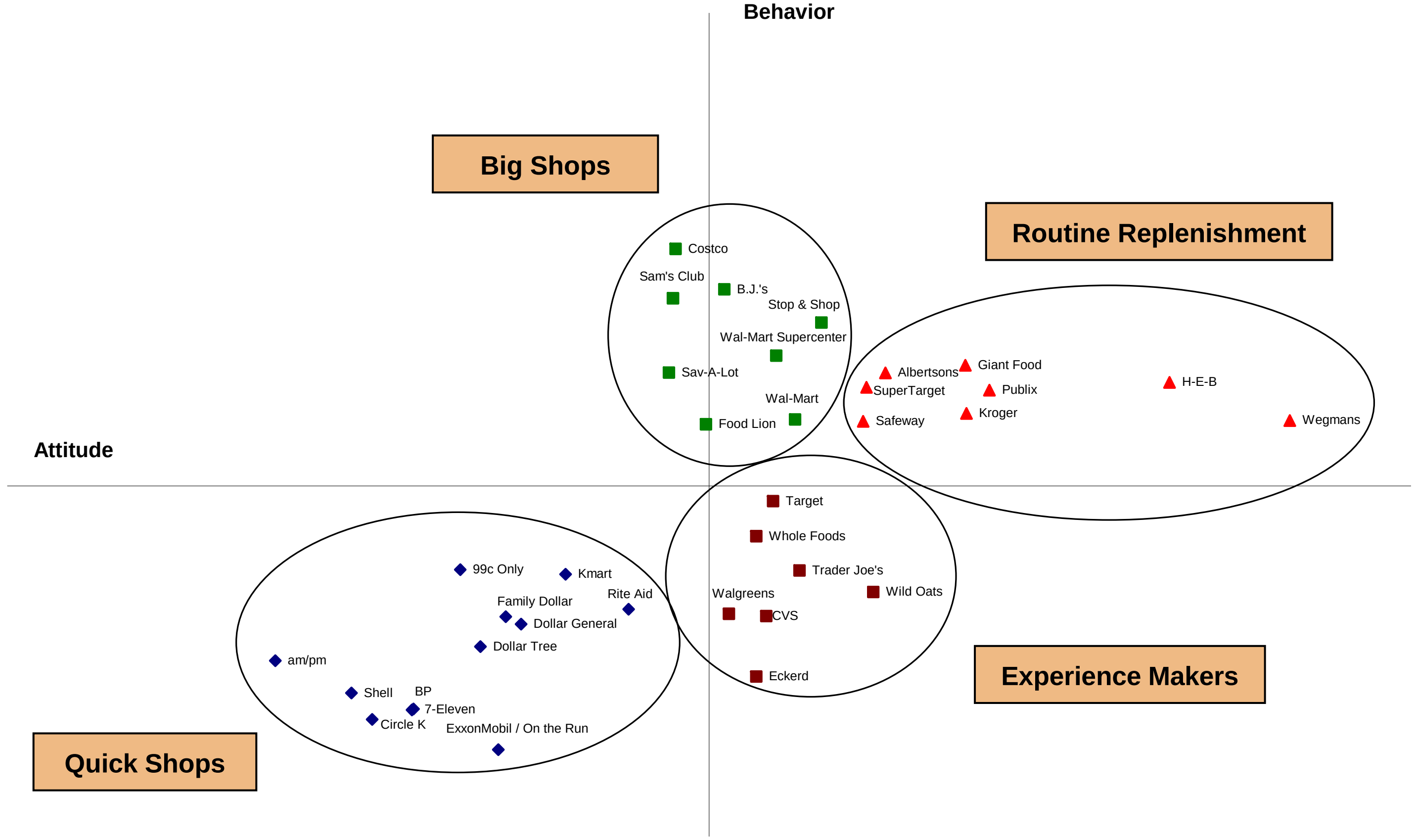
Retailer Segment Insights

34 sample retailer banners were segmented according to similar shopper attitudes and behaviors

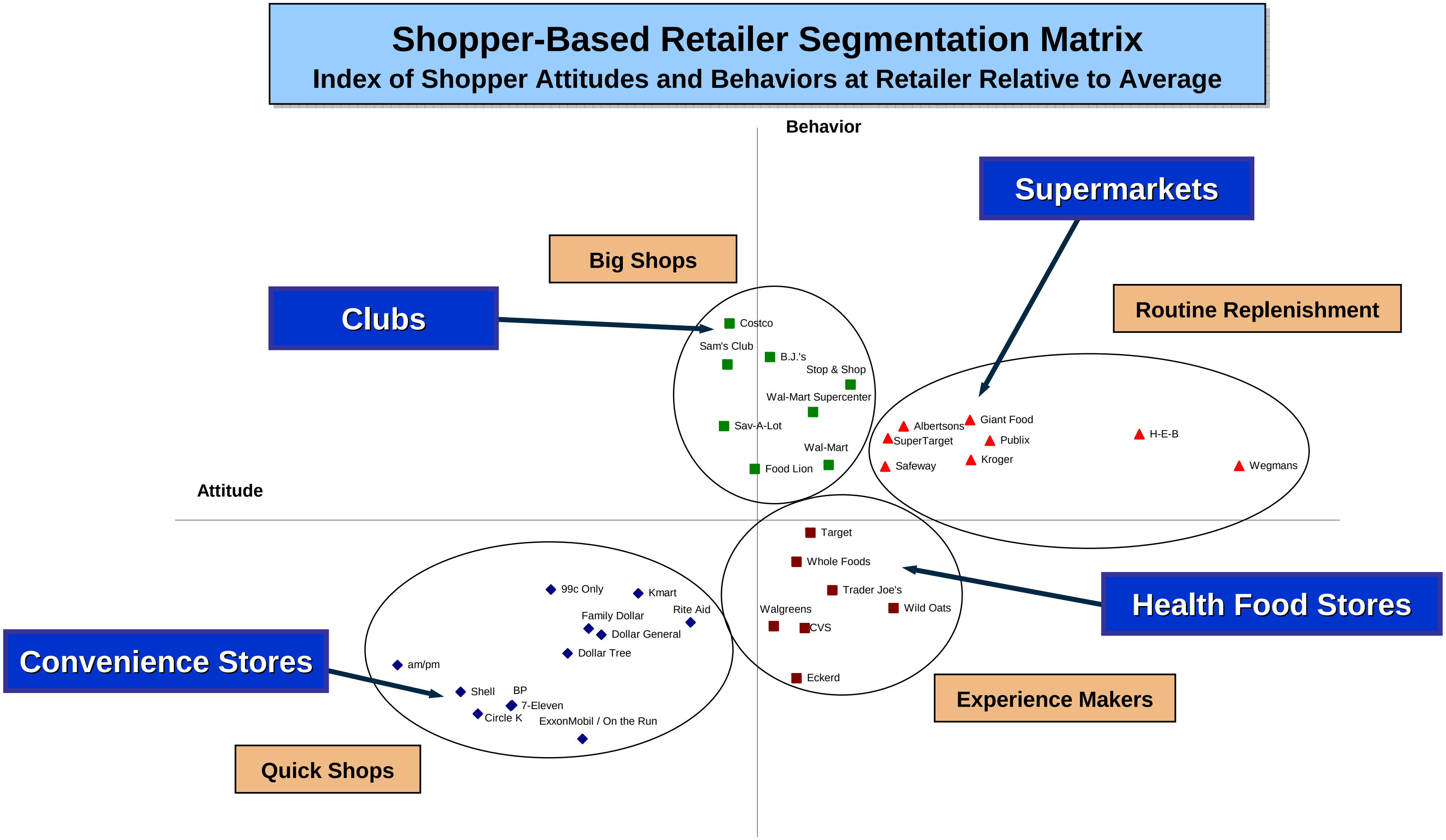
Shopper-Based Retailer Segmentation Matrix

Index of Shopper Attitudes and Behaviors at Retailer Relative to Average



Behavior index measured by spending, shopping frequency and trip time
Attitude index measured by performance of convenience, selection, discounting and store environment factors, weighted by importance of the factors to the shoppers at that retailer
Source: Cannondale Associates Industry Shopper Study, 2006

Some of the retailers in the segments were expected



Behavior index measured by spending, shopping frequency and trip time
Attitude index measured by performance of convenience, selection, discounting and store environment factors, weighted by importance of the factors to the shoppers at that retailer
Source: Cannondale Associates Industry Shopper Study, 2006

...while other retailer positions were unexpected – the three "mass" retailers were in different segments

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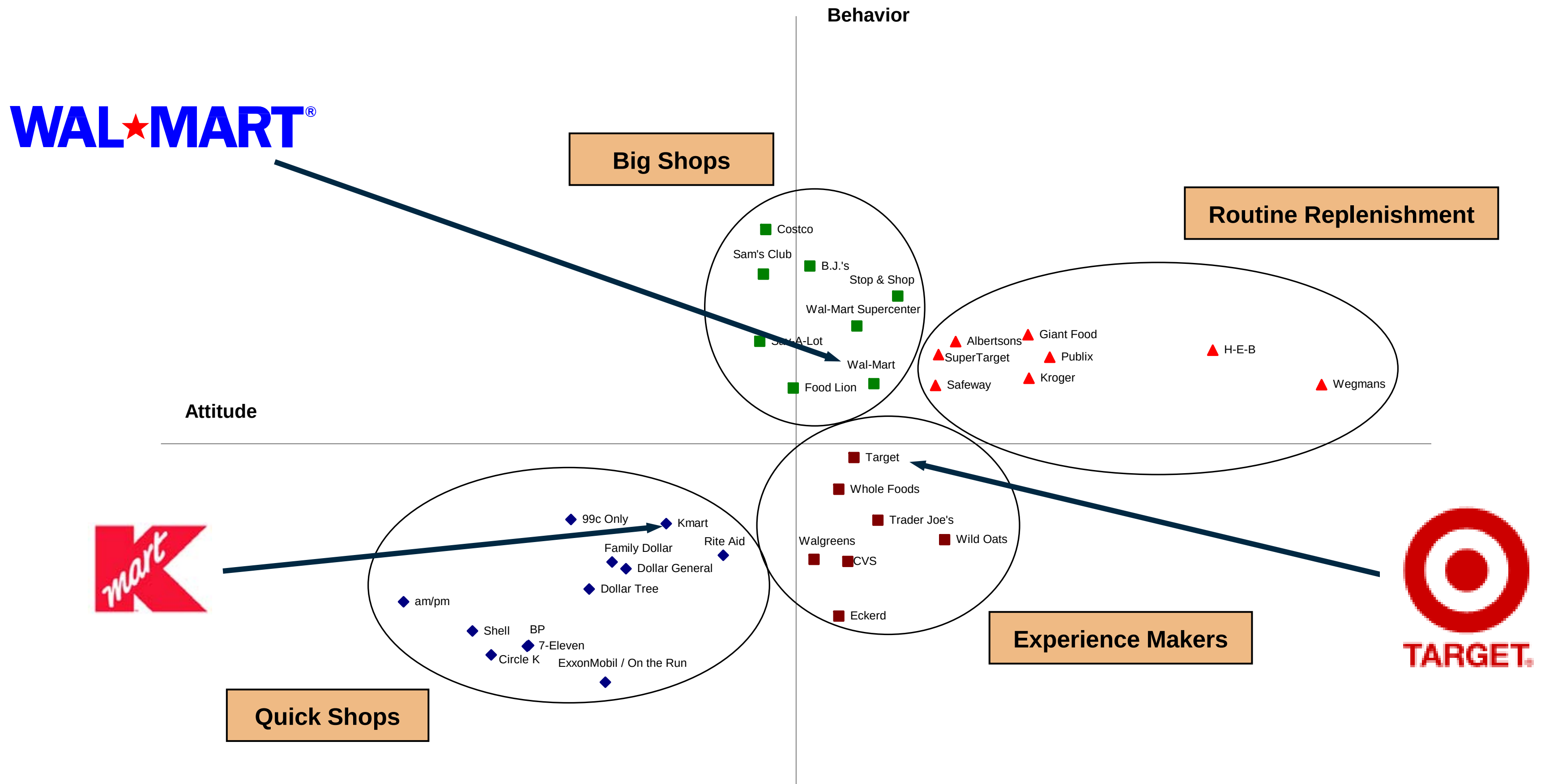
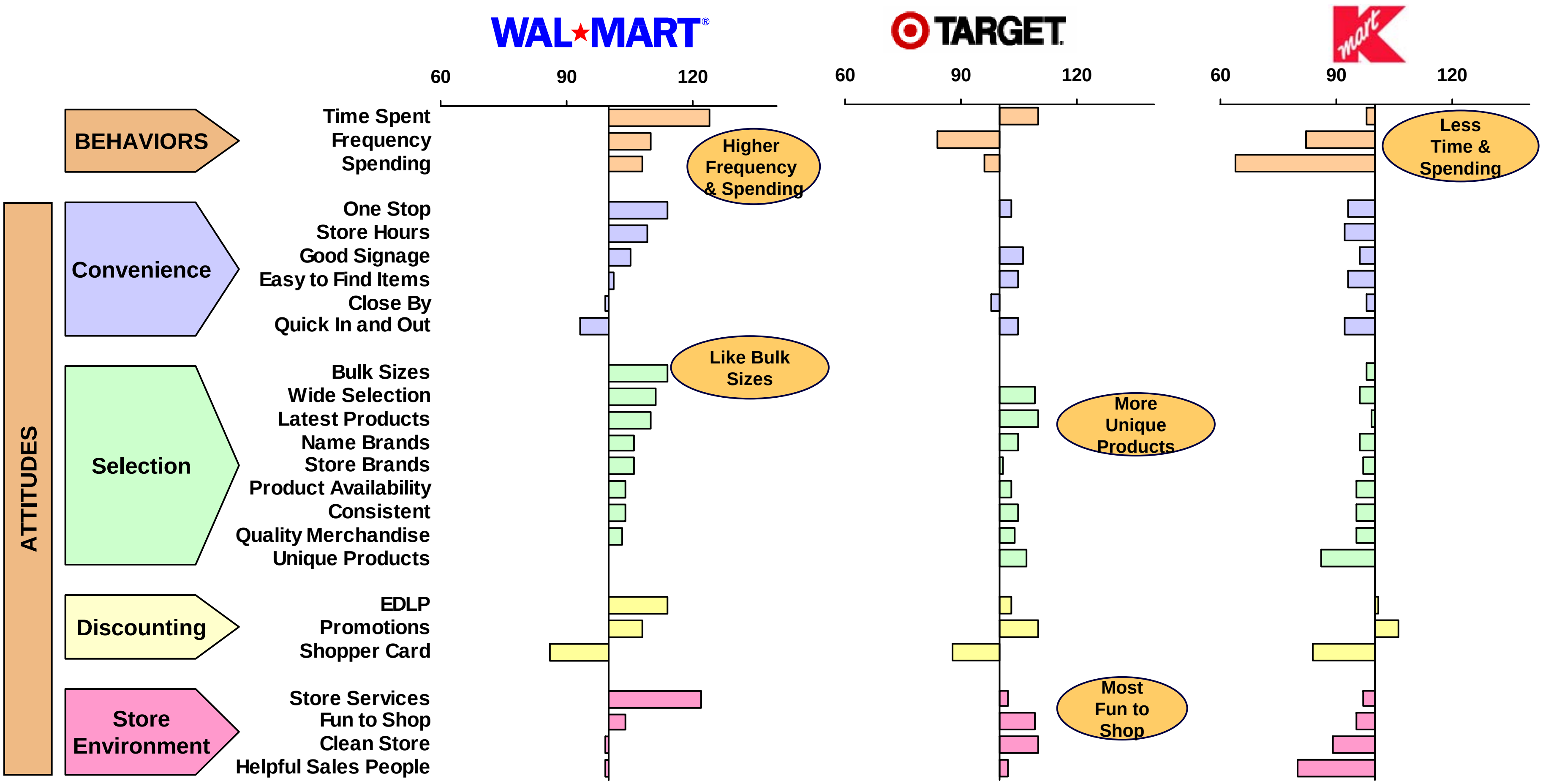


Behavior index measured by spending, shopping frequency and trip time
Attitude index measured by performance of convenience, selection, discounting and store environment factors, weighted by importance of the factors to the shoppers at that retailer
Source: Cannondale Associates Industry Shopper Study, 2006

Wal-Mart shoppers have stronger shopping behaviors and Target shoppers like Target's unique products

Behavioral and Attitudinal Indices Relative to Retailer Average



Source: Cannondale Associates Industry Shopper Study, 2006

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Given the differences in shopper attitudes and behaviors at Wal-Mart, Target and Kmart, what would you do differently?

Leverage unique strengths and address challenges

	WAL★MART	TARGET	Kmart
Insights	High frequency Bulk sizes	Unique products Fun to shop	Limited selection Difficult to find items
Actions	Everyday consumables Bulk size variety	Leverage unique product offerings Fun packaging	Improve assortment Improve layout

Source: Cannondale Associates Industry Shopper Study, 2006

Wegmans was a top performer

Shopper-Based Retailer Segmentation Matrix

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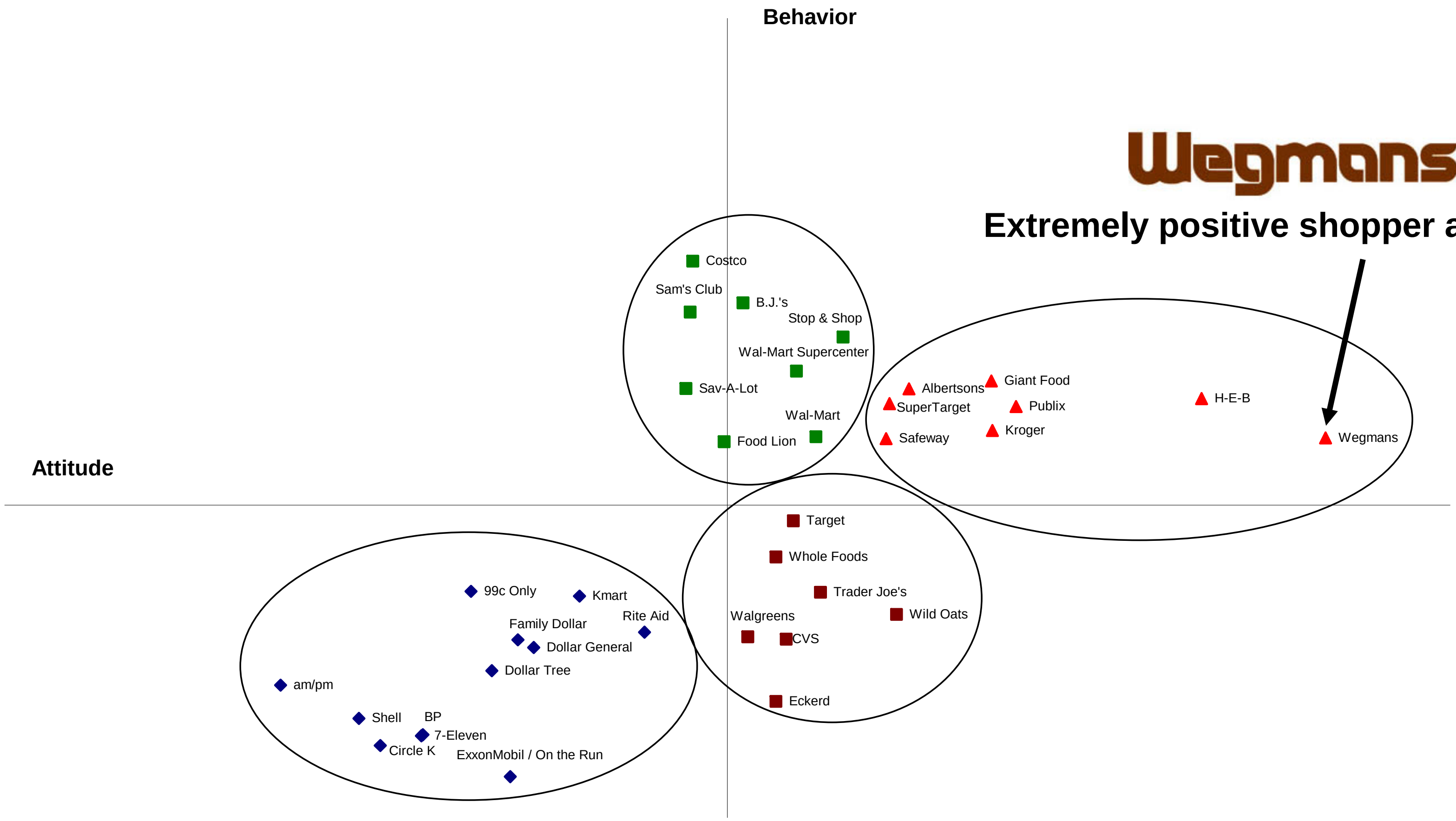

Behavior index measured by spending, shopping frequency and trip time
Attitude index measured by performance of convenience, selection, discounting and store environment factors, weighted by importance of the factors to the shoppers at that retailer
Source: Cannondale Associates Industry Shopper Study, 2006

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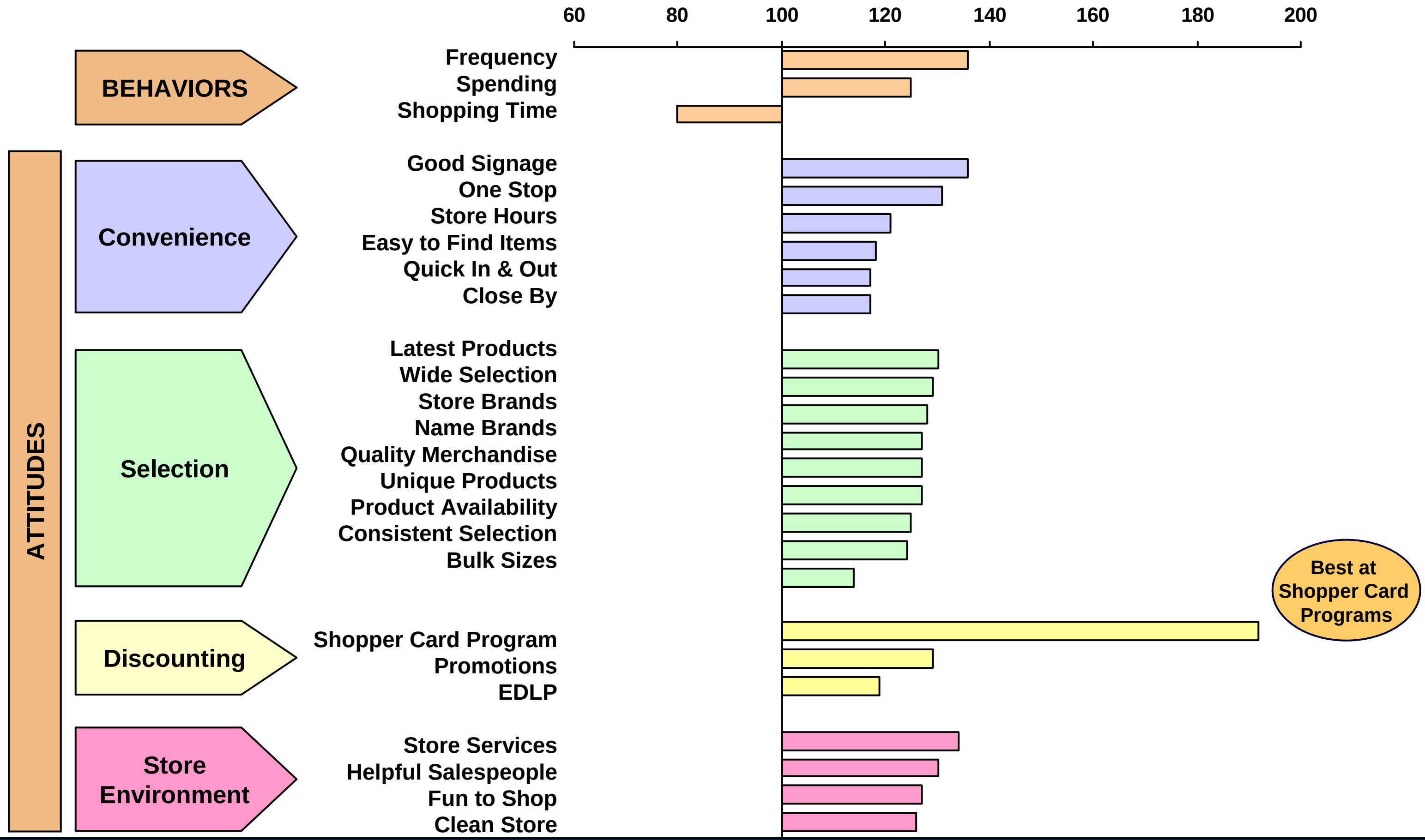
Wegmans performed well on nearly all factors, especially its shopper card program

- Shopping time was shorter at Wegmans than average – is this good or bad?

Shoppers' Behavioral and Attitudinal Indices of Wegmans Relative to Average Retailer

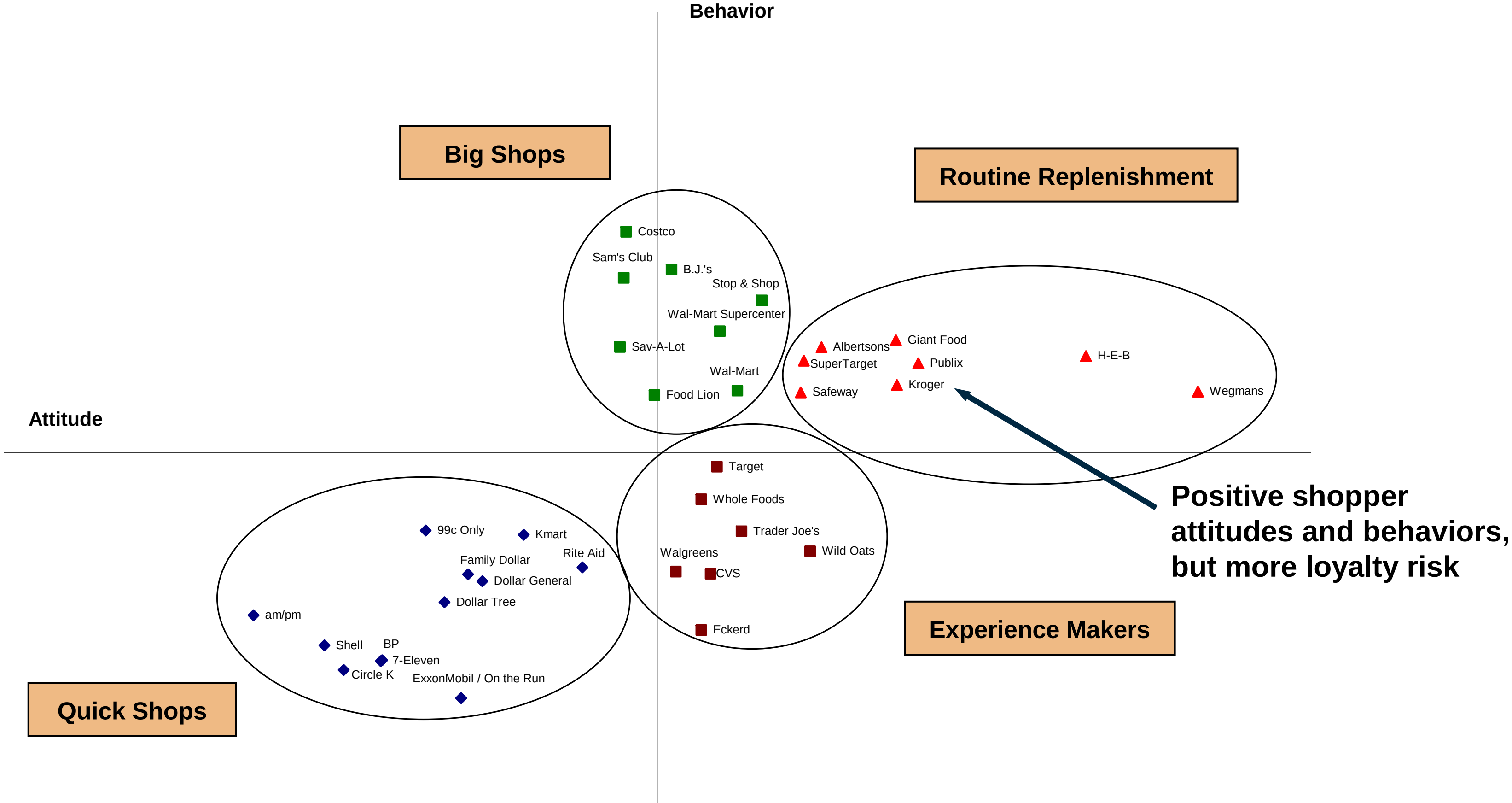


Source: Cannondale Associates Industry Shopper Study, 2006

Some Routine Replenishment retailers showed more loyalty risk

Shopper-Based Retailer Segmentation Matrix

Index of Shopper Attitudes and Behaviors at Retailer Relative to Average



Behavior index measured by spending, shopping frequency and trip time
Attitude index measured by performance of convenience, selection, discounting and store environment factors, weighted by importance of the factors to the shoppers at that retailer
Source: Cannondale Associates Industry Shopper Study, 2006

The example of Routine Replenishment retailer R shows positive behaviors but also some risks

Shopper Behaviors at Retailer R

	Good News	Risks
Where	74% of retailer R shopper trips are to that retailer	Retailer R shoppers have shopped 6+ stores for groceries and other HH basics in past 3 months
What	Prefer retailer R for most items	Half of retailer R shoppers will walk if desired items not available
When	80% of retailer R shoppers shop there weekly	15% of retailer R shoppers shop Wal-Mart weekly
How	1/4 of retailer R shoppers browse each aisle	1/3 Costco and Sam's shoppers browse each aisle

Need strategies to increase trips and browsing at retailer R

Source: Cannondale Associates Industry Shopper Study, 2006

Retailer R shoppers give high scores to their retailer on selection and discounting factors, but other Routine Replenishment retailers stand out more

Shopper Attitudes at Retailer R

	Good News	Risks
Why	▪ Recognize retailer R for wide/consistent selection	▪ Retailer R shoppers give lower selection scores to their retailer than Wegmans and HEB shoppers
	▪ Give high scores to retailer R for shopper card and promotions	▪ 71% of retailer R shoppers will go to a store with the lowest price
Who	▪ Average demographics	▪ Retailer R shoppers are not as high income as Costco, Whole Foods and Target shoppers

Source: Cannondale Associates Industry Shopper Study, 2006

The majority of shoppers' trips at Retailer R are for stock-up, but shoppers stock up more at Big Shops

Shopper Missions at Retailer R

	Good News	Risks
Trip Type	▪ 55% of retailer R trips are stock-up	▪ 67% of Meijer shopper trips are stock- up
$ Spent	▪ $103 spent at retailer R for stock-up	▪ $175 spent by Costco shoppers on stock-up trip
Time Spent	▪ 74 minutes for stock-up at retailer R	▪ 27 minutes for stock-up at Dollar General

Source: Cannondale Associates Industry Shopper Study, 2006

Cannondale Shopper Study

Recommendations

Cannondale recommended 5 manufacturer actions to drive retailer differentiation

1. **Identify future retailer leaders**
2. **Follow a shopper-based approach to segment retailers**
3. **Understand shopper objectives in retailers' priority categories**
4. **Plan with retailer to generate shopper insights that can lead to actions**
5. **Develop shelving, assortment, merchandising and pricing recommendations that address retailer objectives and differentiate the retailer segments**

Source: Cannondale Associates Industry Shopper Study, 2006

Thank you