

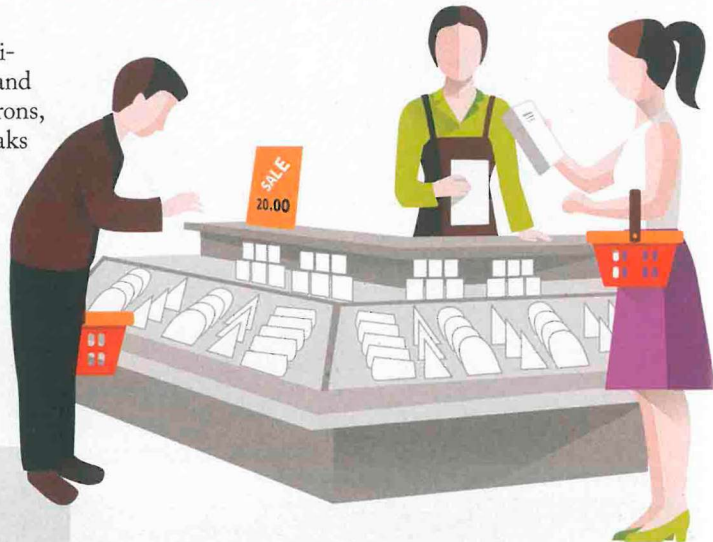


ENHANCING THE IN-STORE EXPERIENCE

Evolving store concepts, amenities, marketing strategies and modes of communication shape how grocers keep shoppers coming back.

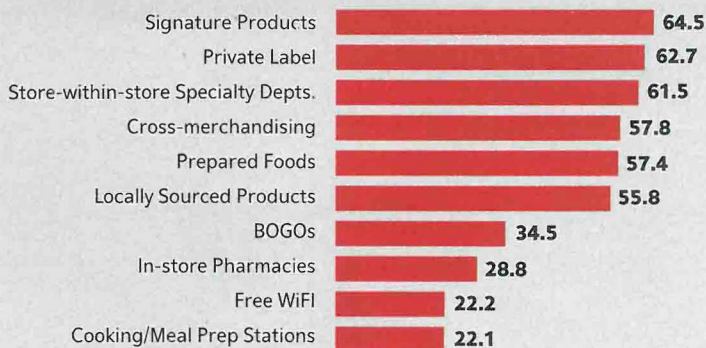
Perpetually challenged by a cutthroat competitive climate, notoriously thin profit margins, and demanding — and often dichotomous — patrons, the grocery business can be brutal, which speaks directly to the need for grocers to concentrate heavily on enhancing the in-store experience to stand apart from both traditional and upstart competitors.

To that end, signature products, private label and store-within-a-store specialty departments are deemed the top three most productive tactics to augment the in-store experience among retail executives respond-



ENHANCING THE IN-STORE EXPERIENCE: MERCHANDISING/BRAND ENHANCEMENT

Percent of respondents rating each strategy as extremely or very important



Source: Progressive Grocer Market Research, 2015

IMPORTANCE OF STRATEGIES: CONSUMER MARKETING/ADVERTISING

Percent of respondents rating each strategy as extremely or very important



Source: Progressive Grocer Market Research, 2015

ing to PG's 2015 Annual Report of the Grocery Industry survey. While signature products and private label are often considered one and the same in the supermarket world, the latter, for purposes of this study, refers to exclusive products housed primarily in the fresh departments, such as gourmet desserts from the in-store bakery, store-made entrées from the fresh meat department, specialty cheese products, bundled meal deals, everyday-value bouquets in floral, and oven-ready regional seafood specialties.

Meanwhile, today's increasingly sophisticated supermarket private label products are all about differentiation, quality and the overall value proposition, and only partially about price. Retailers have invested countless internal resources and millions of dollars annually into perfecting their vast and diverse private brands across the entire store to provide customers meaningful value while shining a spotlight on items that "can only be had here." Consequently, private label prominence has forever solidified its place in the hearts of both retailers and consumers alike, and will remain a critical and compelling component of building the in-store experience for years to come.

Conversely, as we glance back 30 years — give or take a few — a retailer's life was certainly far easier, regardless of the channel. Food stores sold food, drug stores sold medicines and sundries, and fast-feeders sold meals. Beginning in the late 1980s and revving up in earnest by the mid-1990s, however, retailers of all stripes began to realize that they could successfully sell many products beyond the

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IMPORTANCE OF STRATEGIES: CONSUMER ENGAGEMENT

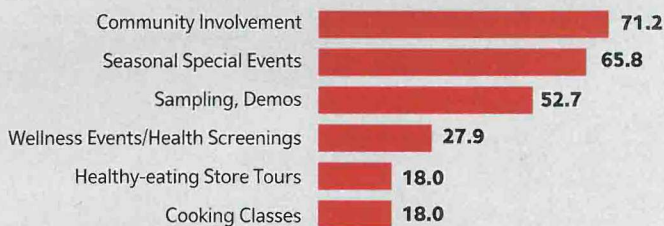
Percent of respondents rating each strategy as extremely or very important



Source: Progressive Grocer Market Research, 2015

ENHANCING THE IN-STORE EXPERIENCE: CUSTOMER INTERACTION

Percent of respondents rating each strategy as extremely or very important



Source: Progressive Grocer Market Research, 2015

ENHANCING THE IN-STORE EXPERIENCE: IN-STORE SERVICES

Percent of respondents rating each strategy as extremely or very important



Source: Progressive Grocer Market Research, 2015

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edges of their traditional boundaries. Grocery stores began adding pharmacies with complete HBC sections and morphed quickly into compelling combo food/drug formats. Drug stores followed suit by making significant forays into food, a cause which was vigorously furthered by spunky regional Bentonville, Ark.-based retailer Wal-Mart Stores Inc.,

which started selling a full line of groceries and high-volume fresh commodities in some stores.

The common denominator for migratory channel-blurring can be explained by a simple answer: store size. Over the period between 1960 and 2000, the square footage of the average store grew relentlessly; the latest year's prototype floor plan always seemed to be a few thousand feet larger than the prior year, which provided retailers with an incrementally larger platform to test and experiment with new departments housing more products in bigger cases, and with it, bigger ROI needs and expectations.

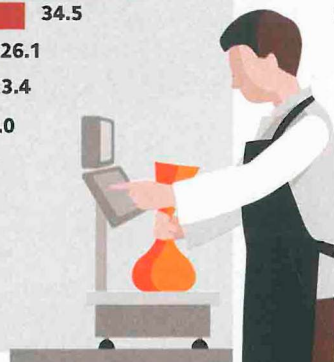
But much has been learned from yesteryear's "bigger is best" store configurations, which brings us back to the present day of retailing, when more compact footprints are becoming the preferred choice for many retailers' new store configurations. Regardless of the size of the box, store-within-a-store departments have been among the most influential tactics for progressive grocers to amp up the in-store experience with full-on specialty departments, be it beauty and wellness, kitchenware, pet food/pet care, or free-from products. To that end, the key to the most successful retailers' store-within-a-store concepts is to capitalize on categories that drive frequent visits and concurrently surprise and delight their most important shoppers, which in turn enables them to capitalize on those visits with countless other items found throughout the rest of the store.

Other elements cited as being highly influential in enhancing the in-store experience among this year's retailer panelists include cross-merchandising (57.8 percent), which slid nearly 10 points from last year; prepared foods (57.4 percent), which held steady from the year-ago report; locally sourced products (55.8 percent), which are expected to continue to gain prominence; time-tested BOGOs (34.5 percent); in-store pharmacies (28.8 percent); free WiFi (22.2 percent); and cooking/meal prep stations (22 percent).

In-store Services

In the current food retailing war, supermarkets are clearly in the crosshairs of many formidable contenders. For that reason, grocers are pulling out all the tools in the shed to help them shine in a sea of sameness, with strategies to help impart an experience, rather than just another place to pick up products that can be sold anywhere. To that end, many grocery leaders are accelerating ongoing efforts to enhance relevancy, differentiation and tailor-made community appeal with specialty services and resident expertise that are available for the asking.

In addition to personalized, professional advice and guidance from pharmacists, in-store nutritionists, dietitians,





wellness experts and even aestheticians available to consult with shoppers on how to live with a new diagnosis such as diabetes, high blood pressure or celiac disease, many retailers are also seeing success with kids' cooking and nutrition classes, wellness and nutrition sessions, oral care screenings, and smoking cessation seminars — all of which are usually free or inexpensive.

However, the most critical in-store service cited by this year's Annual Report of the Grocery Industry panelists is that of on-site butchers or resident meat department experts, viewed by 60 percent as the most rewarding component of an excellent in-store experience.

Pacing butchers in the second seed is having seafood experts, which is also considered to yield a rewarding ROI for building bonds with consumers among 34 percent of respondents, followed next by service-based and informational kiosks.

BENEFITS OF MOBILE DEVICES/SMARTPHONES

	Total
Facebook	48.3%
e-Coupons	46.6
Digital Circulars	45.7
Interactive Websites	31.9
Price Comparison Apps	28.4
Personalized Discounts	27.6
Shopping List Apps	27.6
Personal Shopping Assistance	24.1
Delivery of Online Orders	23.3
Paper Circulars	22.4
POS Loyalty Cards	19.8
Order Online/In-store Pickup	18.1
Meal Planner Apps	15.5
Direct Mail	13.8
In-store Digital Media	12.9
Shopping History	12.1
Twitter	11.2
QR Codes	9.5
YouTube	6.0
Pinterest	5.2
In-store Video Marketing	5.2
Geo-fencing	3.4
Other	1.7

Source: Progressive Grocer Market Research, 2015



GRADE OF COMPANY'S STRATEGY FOR CONNECTING WITH CONSUMERS

	Total
A: We have a fully integrated strategy using in-store, online and digital channels (omnichannel).	12.9%
B: We've got a strategy that we're executing.	32.8
C: We're just getting started.	37.1
D: We're barely there.	12.9
F: What's omnichannel?	4.3

Source: Progressive Grocer Market Research, 2015

Other service-based programs scoring points with experiential retailing tactics include children's/student programs, at 20 percent; wellness experts and registered dietitians, cited by 30 percent of panelists; event planners (12.6 percent); certified chefs (10 percent); and cheesemongers (10 percent).

Benefits of Mobile Devices/Smartphones

Like most other aspects of our lives, technology is playing an ever more important role throughout the store to deliver a more rewarding shopping experience. Innovations in digital, mobile and social technologies have created new contemporary expectations in today's shopper. Indeed, as consumers increasingly use smartphones and tablets in their everyday lives, mobile-based technology has emerged as the top priority for retailers in 2015. That finding is reaffirmed separately by the 2015 State of Retailing Online survey from Shop.org/Forrester Research, in which nearly six in 10 (58 percent) of those polled place mobile at the top of the list.

Moreover, smartphone sales as a percentage of online sales grew from 8 percent in 2013 to 12 percent in 2014 — an increase of 50 percent — according to the 2015 State of Retailing Online survey, which further found that tablets' share of online sales grew from 13 percent in 2013 to 16 percent in 2014. Additionally, many of those who list mobile as the top priority say their digital marketing budgets remain modest, knowing consumers are coming to their mobile sites whether they're ready for them or not.

Of those retailers surveyed, 32 percent report spending less than \$100,000 on their smartphone development efforts in 2014, while 68 percent report spending less than \$1 million. As for tablets, just 4 percent say they invested between \$100,000 and \$250,000 last year. However, eight in 10 surveyed plan to increase their mobile budgets by at least 20 percent in 2015.

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“Consumers are flocking to retailers’ mobile sites at a faster pace and with more interaction than ever before, so naturally they expect retailers to offer fast, well-designed mobile services that meet their needs,” explains National Retail Federation SVP and Shop.org Executive Director Vicki Cantrell. “With that in mind and with several years of mobile commerce now under the industry’s belt, retailers feel confident in their mobile investments. For retailers — when it comes to mobile strategies — small but continuous incremental changes really do go a long way to keep their savvy customers happy.”

Omnichannel ranks second on retailers’ priority lists this year, according to the 2015 State of Retailing Online survey, which found nearly half (45 percent) of participants hoping to improve or invest in programs like buy-online, pickup-in-store, ship-from-store and inventory visibility. This is up significantly from the 26 percent of respondents who listed omnichannel efforts as a priority last year. Nearly four in 10 (38 percent) surveyed say their third priority is marketing optimization, including initiatives related to customer retention and acquisition.



BEST INVESTMENTS IN THE PAST 5 YEARS/NEXT 5 YEARS

	Past 5 years	Next 5 years
Remodeled/Invested in Existing Stores	27.4%	28.4%
Built New Stores	12.0	13.8
Expanded Assortments, i.e., Free-from Section, Organic Section	10.3	4.3
Technology Upgrades/New Investments	8.5	17.2
Upgraded Infrastructure to be More Efficient	7.7	11.2
Geographic Expansion	7.7	6.9
Enhance Social Media Strategy	6.8	14.7
Invested in Private Label/Store Brands	6.8	6.0
Changed Format (Smaller, Bigger, Different)	6.0	4.3
Streamlined Assortments/Trimmed SKUs	4.3	0.0
Training and Retention Programs	3.4	11.2
Overhauled Loyalty Program	2.6	1.7
Closed Underperforming Stores	2.6	2.6
Developed Sustainability Program	1.7	1.7
New PR Campaign to Promote Store to Community	0.9	1.7
Enhance Sustainability Strategy	0.0	0.0
Transitioned to Employee-owned Company	0.0	0.9
Other	5.1	0.9

Source: Progressive Grocer Market Research, 2014

Promotions Become Social, Personal

Without question, the smartphone will be the end-all/be-all source of deals, personalized offers and customer engagement going forward. Pushing a grocery cart around with a paper shopping list is becoming a thing of the past. Along their path to purchase, modern aisle-browsers want convenience and value that makes their lives better and easier.

Recognizing that social networks are the ultimate hub for conversations and word-of-mouth discoveries, 48 percent of retail execs responding to this year’s Annual Report of the Grocery Industry survey rank Facebook as the leading outlet to solidify connections with shoppers. According to a recent study by The Hartman Group, 54 percent of online consumers use social media to discover new foods and share food experiences.

For years, grocers have been reducing FSI circulation, and many retailers have done so with a scalpel rather than a hatchet — testing which markets will profitably respond to transitioning some of their print circular distribution to digital. As more grocers further enrich their wealth of customer data — and as consumers make digital an even bigger part of their lives — the race to offer the most relevant promotions for each customer will continue to intensify.

Bearing out that the days of coupon clipping may be numbered, e-coupons (46.6 percent) and digital circulars (45.7 percent) are rated as the second and third top-rated benefits for an increasingly mobile-using base of shoppers.

As grocers look to further increase share of wallet, they’re also investing more heavily in interactive websites (32 percent) and price comparison apps (28 percent), both of which gained double-digit traction from last year, as well as personalized discounts (27.6 percent).

Other growing in-store technologies include indoor positioning systems to push customized offers in real time. A handful of retailers are already piloting beacon technologies that enable them to blast promotions to customers’ smartphones as they stroll through the aisles.



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SUCCESS ACROSS THE STORE

Meat still reigns supreme, but other categories swap places as they jockey for consumers' dollars and ongoing loyalty.

When respondents to PG's survey were asked which categories generate the most sales, meat once more comes out on top, chosen by 50.9 percent. The second spot belongs jointly to private label, which rocketed up from 12th place last year, and produce, which rose slightly from its third-ranked position in 2014; both were selected by 47.2 percent of respondents. Rounding out the top spots are beer/wine/liquor and frozen food, each with 39.6 percent; general merchandise, at 38.7 percent; and dairy, at 36.8 percent.

Interestingly, center store, No. 2 last year, drops to No. 8 this year; deli/prepared foods, which ranked fifth in 2014, falls to ninth in 2015; and organics have gone from seventh to 11th. Such dramatic downward shifts may indicate that these categories are in need of fresh marketing and merchandising strategies to boost customer purchases, particularly center store, which faces stiffer-than-ever competition from fresh categories, while organic may be affected by the plethora of better-for-you, natural and free-from items on the market, giving health-conscious shoppers more to choose from. On the ascendant, meanwhile, are frozen foods, which last year were in ninth place, and fresh bakery, up six



rungs to ninth this year, buoyed perhaps by consumers' increased interest in the perimeter.

When it comes to driving traffic, meat is again the winner, at 41.7 percent, paced by produce (39.6 percent), deli/prepared foods (38.5 percent), and dairy (37.5 percent), while the next-ranked category, beer/wine/liquor, most likely because they're not carried by all stores, lags somewhat behind, at 25 percent. Last year's second-ranked traffic driver, center store, plunges to seventh, while frozen foods, 17th last year, surges to sixth place.

MOST SUCCESSFUL DEPARTMENTS: GENERATING SALES

	Total
Meat	50.9%
Private label	47.2
Produce	47.2
Beer/Wine/Liquor	39.6
Frozen Foods	39.6
General Merchandise	38.7
Dairy	36.8
Center Store	34.0
Deli/Prepared Foods	28.3
Fresh Bakery	28.3
Seafood	27.4
Organic	25.5
Health, Beauty & Wellness	24.5
Gourmet/Specialty	20.8
Floral	18.9
Ethnic	17.0
Pharmacy	16.0
Checklanes	11.3

Source: Progressive Grocer Market Research, 2015

MOST SUCCESSFUL DEPARTMENTS: DRIVING TRAFFIC

	Total
Meat	41.7%
Produce	39.6
Deli/Prepared Foods	38.5
Dairy	37.5
Beer/Wine/Liquor (if applicable)	25.0
Frozen Foods	24.0
Center Store	21.9
Fresh Bakery	21.9
Pharmacy	18.8
Private Label	18.8
Ethnic	15.6
Gourmet/Specialty	15.6
Organic	15.6
Floral	12.5
Seafood	12.5
Health, Beauty & Wellness	11.5
Checklanes	10.4
General Merchandise	7.3

Source: Progressive Grocer Market Research, 2015

MOST SUCCESSFUL DEPARTMENTS: COUPON REDEMPTION

	Total
Center Store	50.2%
Frozen Foods	21.1
General Merchandise	21.1
Health, Beauty & Wellness	17.5
Dairy	14.0
Checklanes	10.5
Deli/Prepared Foods	5.3
Gourmet/Specialty	5.3
Seafood	5.3
Ethnic	3.5
Beer/Wine/Liquor (if applicable)	1.8
Fresh Bakery	1.8
Meat	1.8
Private Label	1.8
Produce	1.8
Floral	0.0
Pharmacy	0.0
Organic	0.0

Source: Progressive Grocer Market Research, 2015