EXCERPT

GROCERY US 2018

THE FULL REPORT IS AVAILABLE TO L2 MEMBERS ONLY. INQUIRE ABOUT MEMBERSHIP.

L2 Gartner

DIGITAL Q INDEX

US

GROCERY

March 13, 2018

SUPERMARKET SHOWDOWN

Digital grocery in the US has long trailed developments in Europe and Asia, but consumer demand and grocer sophistication are finally advancing. Over half of Index grocers with brick-and-mortar locations now offer proprietary pickup or delivery, and estimates suggest that within five to seven years 70 percent of consumers will shop for groceries online, spending up to $100 billion annually.[1] Amazon is leading the charge, kicking off 2018 with the official launch of the Amazon Go store and free Whole Foods delivery for Prime members in select markets.

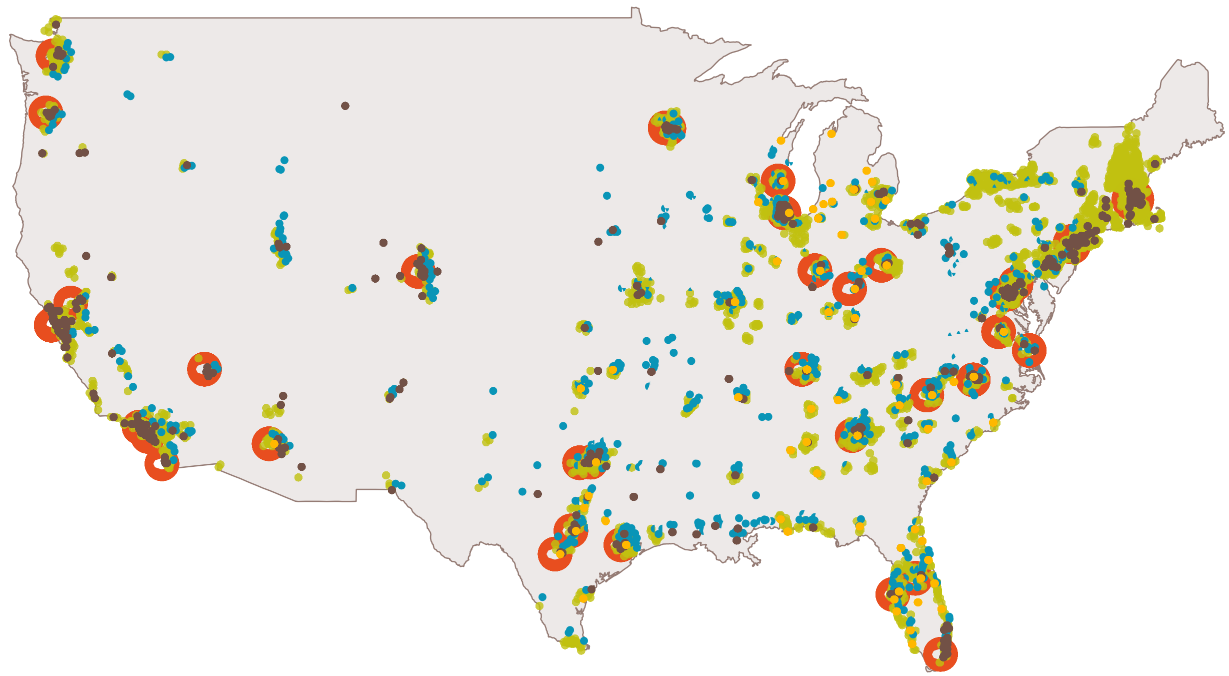
Amazon's acquisition of Whole Foods was the biggest retail event of 2017, resulting in substantial losses in market capitalization for rivals in the immediate aftermath. Combined with Whole Foods, Amazon is now the third-largest retailer in the US,[2] and could surpass Kroger in the coming year. However, major grocers have long-standing physical and digital assets they can use to catch up. In the 2016 L2 Digital IQ Index: Big Box, H-E-B was one of thirteen supermarket brands that offered proprietary delivery through its mobile site, but today seven of the same thirteen brands offer this capability. While brands like Kaufland in Germany have abandoned online grocery,[3] US grocers are upgrading their services and platforms to ensure they avoid the fate other industries have suffered at the hands of Amazon. Instacart is partnered with 146 grocers in 43 states,[4] and Walmart Grocery and Kroger ClickList now each have over 1,000 pickup locations,[5, 6] or nearly as many as the total number of US Home Depot locations.[7]

1. "The Digitally Engaged Food Shopper," FMI and Nielsen, January 29, 2018.
2. "Stores Top 100 Retailers 2017," NRF.
3. "Kaufland Stops Grocery E-Commerce Venture in Germany," Denise Klug, Lebensmittel Zeitung, December 12, 2017.
4. "Instacart Adds Grocery Giant Kroger In Retail Push After Amazon-Whole Foods Deal," Biz Carson, Forbes, November 8, 2017.
5. "Walmart is doubling down on grocery in its race against Amazon," Charisse Jones, USA Today, October 10, 2017.
6. "Kroger Rolls Out ClickList to 1,000th Store," Progressive Grocer, December 18, 2017.
7. "US Store Count by State," Home Depot, Q4 2017.

Grocery US: Presence of Digital Grocery Fulfillment Options

February 2018

Instacart · Walmart Grocery · Whole Foods · Shipt · Prime Now Delivery



Source: Company Websites.

You're Gonna Need a Bigger Basket

Supermarket brands need to determine how to accelerate their entry into e-commerce to compete with Amazon. Fifty-eight percent of Index grocers with brick-and-mortar locations have allied with Instacart. Despite Instacart offering fulfillment capabilities and many useful path-to-purchase features, brands must be wary of the potential impact to loyalty—customers can switch grocers on Instacart's main platforms.

US grocers have spent decades perfecting in-store merchandising to squeeze profits out of tight margins, but few have translated these strategies to their online offerings. Though basket sizes for online food orders remain small, digital presents new merchandising and monetization opportunities.[8] Yet only 55 percent of Index grocers offer nutrition facts on product pages, only 50 percent cross sell, and just 27 percent display sponsored products on grid pages. Grocers have also struggled to improve the in-store shopping experience with digital, with only 58 percent of Index grocers with physical stores allowing customers to save coupons on the mobile site and only 26 percent allowing customers to access a shopping list from the mobile site header.

Market leaders are investing in data and targeting efforts. In October, Kroger announced Restock Kroger—a plan to more effectively use data from the in-house 84.51 team to create personalized customer experiences online and improve the in-store shopping experience.[9] Kroger already leverages customer data to craft targeted loyalty emails, leading the Index in email open rates for rewards campaigns. Albertsons is following suit, recently announcing a new data tool—Albertsons Performance Media—that will allow the grocer to sell display ads to manufacturer brands.[10]

8. "How many items does your usual online food order comprise?" Statista Survey, May 2017.

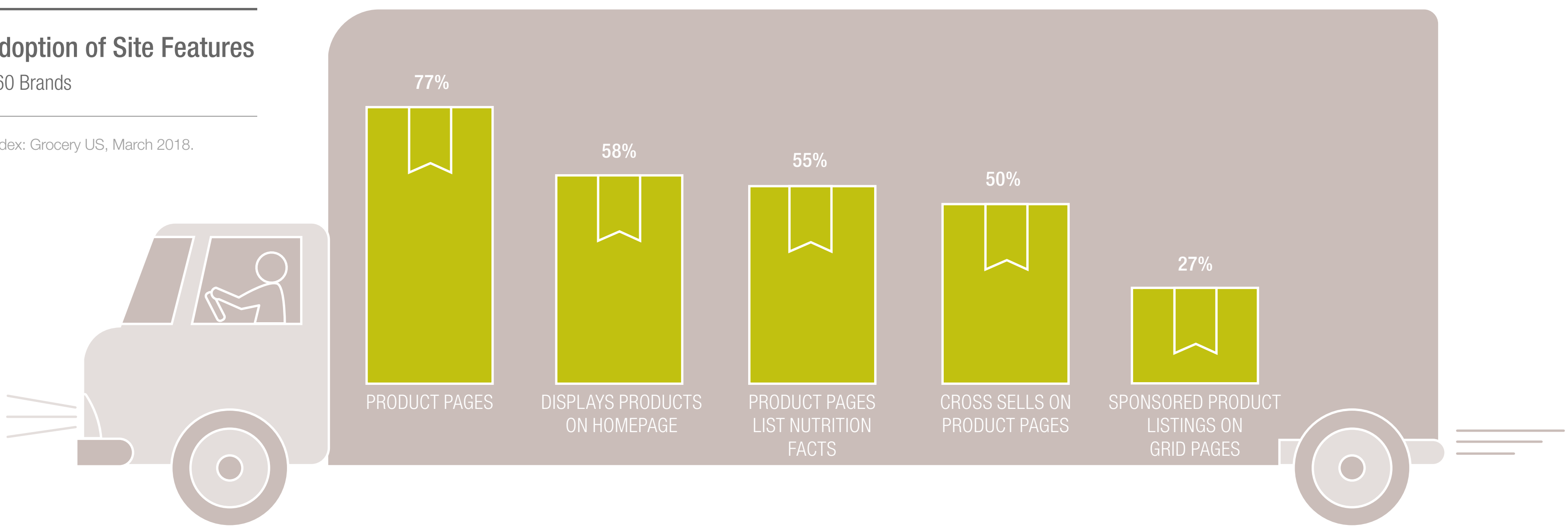
9. "Kroger Outlines Plan to Redefine the Way America Eats and to Deliver Value for Customers & Shareholders," Kroger, October 11, 2017.

10. "Albertsons Performance Media Seeks To Capture More CPG Spend as Lines Blur Between Brand and Shopper Marketing," Kelly Liyakasa, January 29, 2018.

Grocery US: Adoption of Site Features

February 2018, n=60 Brands

Source: L2 Digital IQ Index: Grocery US, March 2018.



Studying Abroad

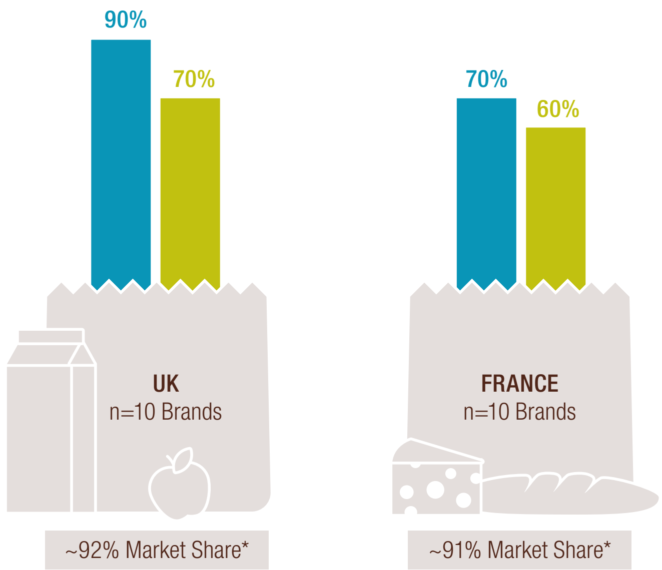
Companies like SK Planet in South Korea and Tesco in the UK lead in digital grocery innovation, offering valuable lessons for US peers. The UK had an early start due to high geographic concentration, leading nine of ten examined grocers to offer delivery, and allowing companies to offer consistent and transparent delivery prices.[11] Top UK grocers have had 20 years to train customers in online grocery, giving them a substantial lead over US counterparts.[12]

France, like the US, has a relatively dispersed population, offering better fulfillment models for suburban and rural grocers, with brands like Carrefour Drive and LeClerc maintaining thousands of drive-through grocery pickup stations across France to serve suburban communities.

11. "Supermarket Shift: Expect Measured Disruption," Goldman Sachs, August 9, 2017.
12. "What's Next in E-Commerce: Understanding the Omnichannel Consumer," Nielsen, 2017.

Grocery US: Adoption of Fulfillment Options by Grocery Market Leaders

February 2018 Delivery Pickup



*Kantar Worldpanel.
**Cowen & Co., Company Reports, Supermarket News.
Source: L2 Digital IQ Index: Grocery US, March 2018.

Drive-through grocery in France is primed for rapid growth, with the drive-through model expected to account for 10 percent of grocery sales in France in 10 years, up from 5 percent today.[13] While grocery chains will find it increasingly difficult to compete against the combination of Amazon Prime Now and Whole Foods in urban markets, companies like Walmart and H-E-B can follow the French curbside pickup model to win in suburban and rural areas.

13. "Retail in Motion: What U.S. retailers can learn from France," Kantar, 2017.

Digital IQ = Shareholder Value

Digital competence is inextricably linked to shareholder value. The first annual L2 Digital IQ Index: Grocery US benchmarks the digital performance of 60 grocers. Our aim is to provide a robust tool to diagnose digital strengths and weaknesses, helping managers achieve greater return on incremental investment. Like the medium we assess, our approach is dynamic. Please reach out with comments that help improve our methodology and key findings.

Regards, **L2**

Bill Duffy | Associate Director, Grocery
Griffin Carlborg | Senior Research Associate, Grocery
Evan Mack | Research Associate, Grocery
Nikhil Goyal | Director Data Science
Salil Navgire | Data Scientist
Elena Akulova | Senior Designer

L2 research is based on data-driven analysis. Our findings, rankings, and recommendations are objective, unbiased, and independent of membership.

L2 Gartner DIGITAL IQ INDEX

SITE & E-COMMERCE

30%

Site Performance:
Uptime, Above-the-Fold Load Speed

Search & Navigation:
Guided Selling Tools, Content Integration, Keyword Search Sophistication, Sorting & Filtering Options

Product Pages:
Product Merchandising, Product Images & Videos, User Ratings & Reviews Interface, Nutrition Content

E-Commerce:
Single-Page Checkout/E-Tailer Handoff, Expedited Payment Options, Partnerships With Delivery Services

Customer Service:
FAQs, Live Chat, Contact Information

Account & Loyalty:
Account Customization & Data Capture, Loyalty Program Opt-In

Omnichannel (if applicable):
Buy Online, Pick Up in Store; Reserve Online, Pick Up in Store; Store Locator, Geolocation

Recipes:
Recipe Content, Search, Add to List, Links to Product Pages

Site Monetization:
Static & Video Display Ad Impressions Served on Site, Sponsored Listings, Featured Products

DIGITAL MARKETING

30%

Desktop Search:
Traffic, Web Authority, Organic & Paid Visibility Against Google Searches for 2,791 Branded & Unbranded Keywords Across 12 Categories Weighted by Keyword Search Volume

Display Advertising:
Desktop Static & Video Display Ad Impressions, Cost per Thousand Impressions, Quality of Publishers

Email Marketing:
Open Rate, Mobile Optimization, Photo & Video Content

Coupon & Affiliate Programs:
Presence on Major Coupon and Affiliate Sites and Apps

SOCIAL MEDIA

10%

Facebook:
Total Post Engagement, Average Interactions per Post, Community Growth

Instagram:
Total Post Engagement, Average Interactions per Post, Community Size & Growth, Instagram Stories Presence & Post Frequency

YouTube:
Search Visibility, Channel Views, Subscribership & Growth

Twitter:
Total Tweet Engagement, Interactions per Tweet, Community Size & Growth

Pinterest:
Total Interactions, New Content Posted in Period, Post Frequency, Followers

Snapchat:
Presence, Activity

MOBILE

30%

Mobile Site:
Uptime, Above-the-Fold Load Speed, Search & Navigation, Store Locator, Geolocation, M-Commerce, Mobile-Native Features

Mobile Search:
Organic & Paid Visibility Against Google Searches for 2,791 Branded & Unbranded Keywords Across 12 Categories Weighted by Keyword Search Volume

Display Advertising:
Mobile Web Static & Video Display Ad Impressions, Cost per Thousand Impressions, Quality of Publishers

Mobile Apps (if applicable):
Support for iOS & Android; App Store & Google Play Ratings, Installations, Update Recency, M-Commerce & Loyalty Capabilities

CLASSIFICATION

GENIUS 140+

Digital competence is a point of competitive differentiation for these brands. Creatively engineered messaging reaches consumers on a variety of devices and in many online environments.

GIFTED 110–139

Brands are experimenting and innovating across site, mobile, and social platforms. Digital presence is consistent with brand image and larger marketing efforts.

AVERAGE 90–109

Digital presence is functional yet predictable. Efforts are often siloed across platforms.

CHALLENGED 70–89

Limited or inconsistent adoption of mobile and social media platforms. Sites lack inspiration and utility.

FEEBLE <70

Investment does not match opportunity.

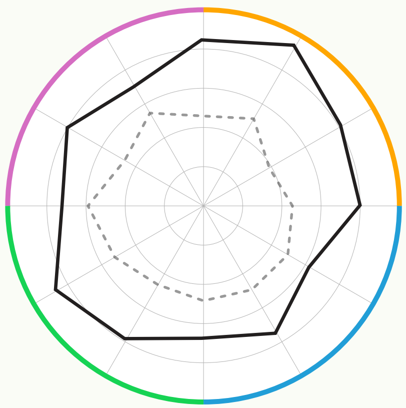
EXCERPT

GROCERY US 2018

L2 Gartner
DIGITAL IQ INDEX

1 RANK | amazon | 149 DIQ

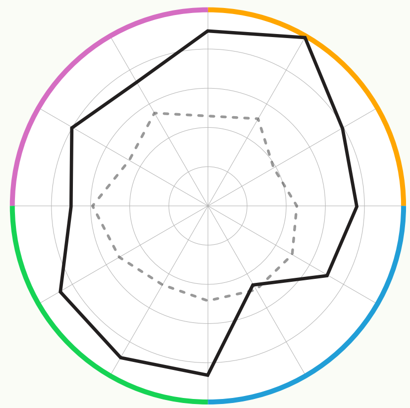
Amazon.com, Inc.



GENIUS

2 RANK | Walmart | 146 DIQ

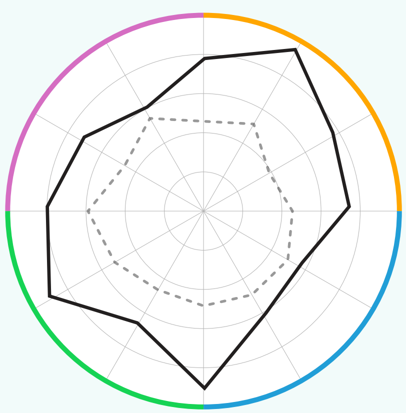
Walmart Inc.



GENIUS

3 RANK | H-E-B | 136 DIQ

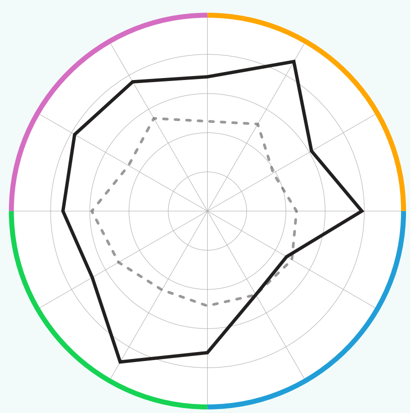
HEB Grocery Company, LP



GIFTED

4 RANK | TARGET | 135 DIQ

Target Corporation



GIFTED

5 RANK | Kroger | 134 DIQ

The Kroger Co.

GIFTED

INDEX AVERAGE

SITE & E-COMMERCE
1 Search & Navigation
2 Product Page
3 E-Commerce & Fulfillment

DIGITAL MARKETING
1 Destop Search
2 Web Advertising
3 Email

SOCIAL MEDIA
1 Facebook
2 Instagram
3 YouTube

MOBILE
1 Mobile Site
2 Mobile Search
3 Mobile App*

Note: *Selective scoring.

	RANK	BRAND	DIGITAL IQ
GIFTED	6	Publix Publix Super Markets, Inc.	128
GIFTED	6	Sam's Club Walmart Inc.	128
GIFTED	8	ShopRite Wakefern Food Corporation	125
GIFTED	9	meijer Meijer Companies, Ltd.	120
GIFTED	10	freshdirect Fresh Direct, LLC	118
GIFTED	11	Costco Wholesale Costco Wholesale Corporation	116
GIFTED	12	HyVee Hy-Vee, Inc.	115
GIFTED	12	Peapod Ahold Delhaize	115
GIFTED	14	Harris Teeter Neighborhood Food & Pharmacy The Kroger Co.	114
GIFTED	14	SAFEWAY Albertsons Companies, LLC	114
GIFTED	16	Giant Eagle Giant Eagle, Inc.	113
GIFTED	16	jet Walmart Inc.	113
GIFTED	16	Stop&Shop Ahold Delhaize	113
GIFTED	16	Thrive Market Thrive Market LLC	113
GIFTED	20	Dollar Tree Dollar Tree, Inc.	112
GIFTED	20	instacart Instacart, Inc.	112
GIFTED	20	kmart Sears Holdings Corporation	112
GIFTED	23	Ralphs The Kroger Co.	111
GIFTED	24	Whole Foods Market Amazon.com, Inc.	110
AVERAGE	25	Albertsons Albertsons Companies, LLC	109
AVERAGE	25	BOXED Boxed Wholesale	109

RANK	BRAND	DIGITAL IQ
25	Winn-Dixie Southeastern Grocers	109
28	DOLLAR GENERAL Dollar General Corporation	108
29	FredMeyer The Kroger Co.	107
30	Fry's Food Stores The Kroger Co.	104
30	Wegmans Wegmans Food Markets, Inc.	104
32	ALDI Aldi Süd	102
33	Jewel-Osco Albertsons Companies, LLC	100

RANK	BRAND	DIGITAL IQ
34	VONS Albertsons Companies, LLC	95
35	Sprouts Farmers Market Sprouts Farmers Market, Inc.	92
36	BJ's Live Generously. Leonard Green & CVC Capital Partners	91
37	Hannaford Ahold Delhaize	90

CHALLENGED

RANK	BRAND	DIGITAL IQ
38	Dillons The Kroger Co.	89
38	Google Express Alphabet Inc.	89
40	SHIPT Target Corporation	83
47	Smart & Final Smart & Final Stores, Inc	72
49	Food 4 Less The Kroger Co.	70

FEEBLE

RANK	BRAND	DIGITAL IQ
50	ACME Albertsons Companies, LLC	69
50	Save a lot food stores Onex Corporation	69
52	WinCo Foods Winco Holdings, Inc.	65
53	Cub Supervalu, Inc.	64
53	Schnucks Schnuck Markets, Inc.	64

RANK	BRAND	DIGITAL IQ
55	Shaw's Albertsons Companies, LLC	63
56	Ingles Ingles Markets, Inc.	57
57	Stater Bros. Stater Bros. Holdings Inc.	55
58	Trader Joe's Aldi Nord	53
59	Price Rite Marketplace Wakefern Food Corporation	39
60	Market Basket Demoulas Super Markets, Inc.	34

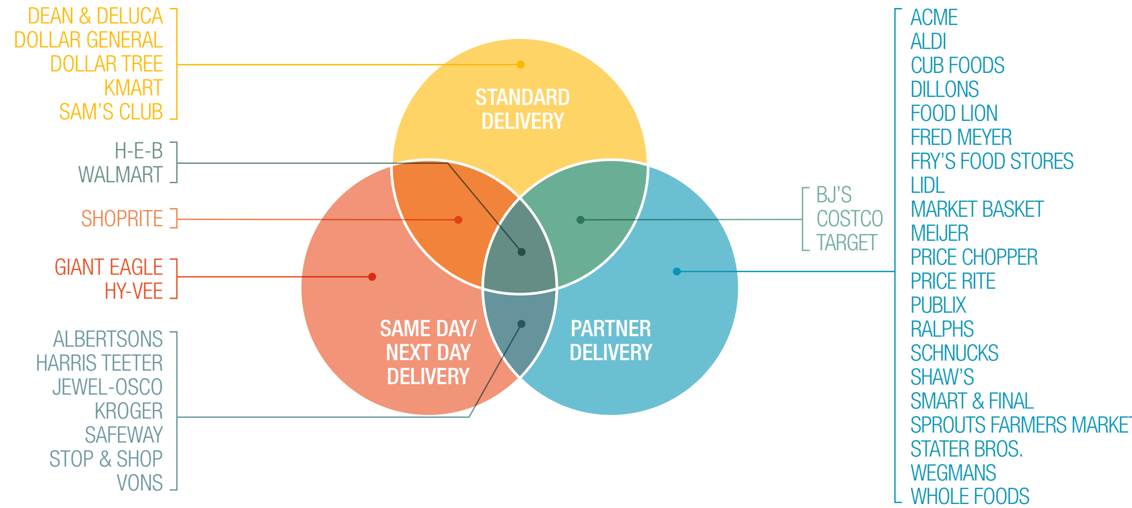
Digital Disorder

Forty percent of Index grocers with physical stores offer first-party delivery, with just over half of these grocers offering same-day or next-day delivery. The substantial investment and technical know-how required to build out first-party distribution leads most grocers to partner with third-party services. For instance, Price Rite lacks site sophistication, offering no product information or e-commerce but the grocer partners with Instacart, outsourcing these offerings. Forty-two percent of Index grocers with physical stores rely entirely on third parties, such as Instacart, Google Express, and Shipt to provide delivery. Even grocers that have first-party fulfillment capabilities sometimes partner with Instacart to expand into same-day fulfillment and reach more online shoppers. However, retailers suffer from limited control on these platforms. The reliance of grocers on third-party digital shopping interfaces resembles the e-commerce partnerships of Amazon with the now bankrupt Borders and Toys“R”Us—outsourcing fulfillment allows grocers to quickly provide e-commerce, but potentially weakens their bottom lines in the long term.

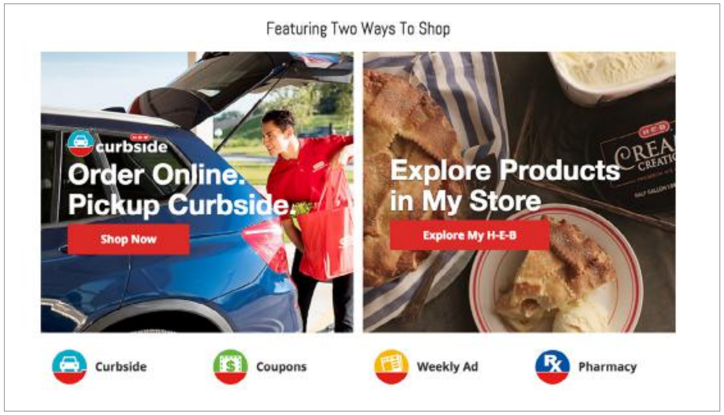
Forty-six percent of grocers with brick-and-mortar locations offer order for pickup. While most grocers require customers to enter the store to complete these transactions, retailers like Walmart are following the French curbside pickup model, allowing customers to have orders brought to their cars. H-E-B is another leader in fulfillment, offering curbside pickup, standard delivery for non-perishables, local delivery for perishables, and partnering with both Instacart and Shipt.

Grocery US: Adoption of Grocery Delivery Services

February 2018, n=41 Brands With Brick-and-Mortar Locations



Source: L2 Digital IQ Index: Grocery US, March 2018.



H-E-B

H-E-B promotes a range of features and fulfillment options on the brand site homepage.

Searching for Groceries Online

On average, grocers own 38 percent of organic results surfaced by relevant branded keyword searches and consistently take the first position. Branded search drives a significant share of site traffic, but grocers need to improve their organic visibility and ownership against unbranded keyword searches to attract customers conducting high-level product research. Grocers with low site traffic especially rely on branded search—sites that get fewer than five million monthly visits earn an average of 38 percent of traffic from their top branded term, while more highly trafficked sites get 30 percent of traffic from these terms. Brands that earn low traffic and rely on branded search need to optimize their site content to reach customers searching for grocery keywords online.

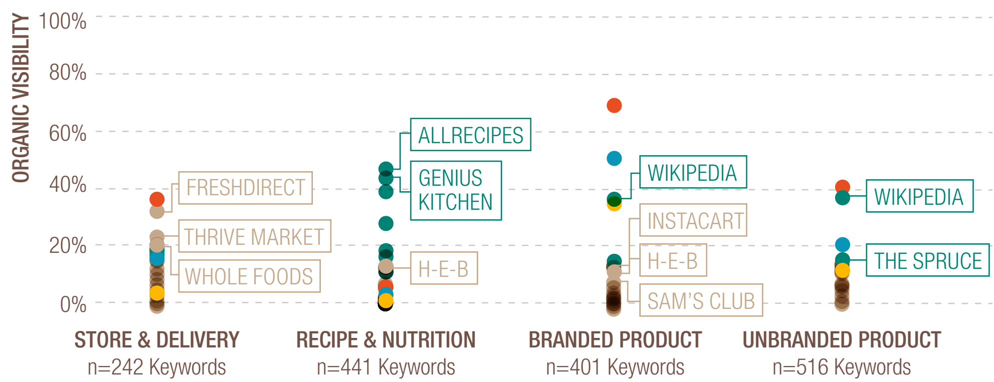
Amazon is the clear leader in several major keyword categories, frequently appearing against delivery-related searches and appearing against 69 percent of branded product searches (e.g. "kind bars"). Walmart follows in search visibility against branded product queries, with optimized product pages appearing frequently against both branded and unbranded product searches. But the majority of grocers earn low visibility against these keywords, with only Instacart, H-E-B, and Sam's Club achieving significant visibility. Instacart is especially notable, as it takes its merchandising content from partner brands and generates higher visibility than most grocers, in part by employing structured URLs containing keywords. While grocers like Kroger earn second-order visibility by appearing in Instacart URLs and landing pages, customers can switch between grocers after navigating to Instacart, making Instacart the primary beneficiary.

Searches for meal-related and unbranded keywords (e.g. "butter lettuce") are becoming increasingly important, but few grocers are well optimized to attract customers conducting high-level product research. Search volume for unbranded packaged food keywords grew 23 percent between February 2017 and January 2018, while search volume for branded packaged food keywords grew 10 percent. Grocers' weakness in this area is especially apparent in search for recipes and nutrition, with third-party sites like Allrecipes and Genius Kitchen far ahead against keywords like "healthy lunches for kids." While H-E-B exemplifies a grocer with strong performance against some recipe keywords, grocers need to optimize content for organic search visibility to ensure they are top-of-mind when customers want to learn about food and nutrition.

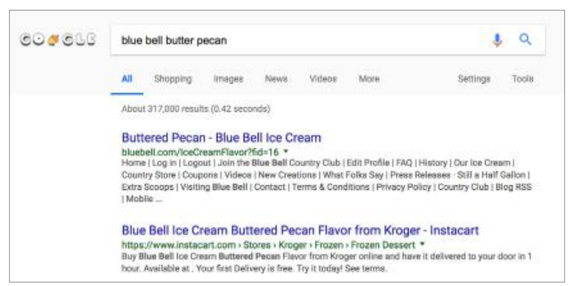
Grocery US: Organic Google Search Visibility by Keyword Type

January–February 2018, n=1,600 Keywords

Amazon | Walmart | Target | Non–Index Leader | Other Index Brands

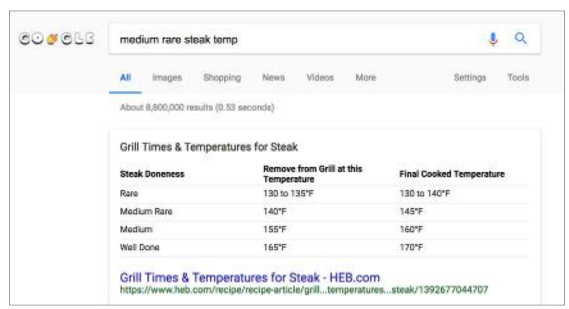


Source: L2 Digital IQ Index: Grocery US, March 2018.



instacart

Instacart earns visibility against searches for manufacturer brands by using product information culled from partners like Kroger.



H-E-B

H-E-B has fully optimized recipe and nutrition pages, serving as an authority in Google search for cooking queries.

Mass Engagement on Facebook

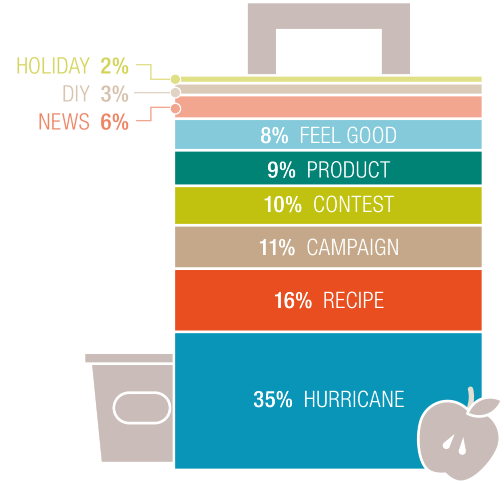
Grocers primarily leverage social media as a vehicle for mass engagement and a venue for meal content. Converting customers on specific grocery products online is difficult, leading many grocers to focus social media marketing on general store promotion—only 9 of the top 100 analyzed Facebook posts by engagement in 2017 promoted products. However, small pure plays like Brandless and Thrive Market have successfully used these platforms to acquire customers, driving a significant share of their site traffic from their own handles and influencer accounts.

For supermarket brands, Facebook leads in engagement among social platforms, accounting for 1.5 million more interactions than Instagram. Grocers pay for the vast majority of interactions on Facebook, with promoted posts accounting for 79 percent of total interactions despite only comprising one-third of total posts. No single content type clearly leads on Facebook—grocers have found success with contests, products posts, and recipes, and the primary indicator of reach and engagement is spend. Kroger is the Index leader on Facebook and posts a wide variety of content, from feel-good stories to ClickList promotions, earning 90 percent of engagement from promoted posts. While Kroger's top DIY videos tend to feature the brand's private labels, Kroger also works with manufacturer brands like Mondēlez to promote coupons and recipes.

The most engaging social media posts by Index grocers in 2017 were video posts about relief efforts for Hurricanes Harvey and Irma. Index grocers serving regions impacted by the storms including Kroger, Publix, and Walmart devoted resources to relief and promoted their efforts with frequent Facebook posts. H-E-B was heavily involved in relief efforts in its home state of Texas, posting frequent video updates.[14] H-E-B posted the most-viewed Facebook video in the Index, earning over 200,000 interactions and 6 million views. However, even timely and moving content rarely goes viral—H-E-B had to pay for 93 percent of its Facebook interactions in 2017. Beyond supporting its community during crises, H-E-B continues this local effort with frequent videos featuring the San Antonio Spurs, building itself up as the leading grocer in Texas.

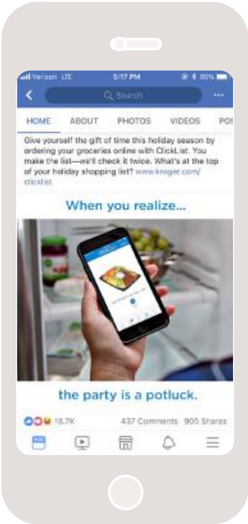
Grocery US: Topics of Top 100 Facebook Posts by Engagement

2017, n=100 Facebook Posts by 58 Brands



Source: L2 analysis of Unmetric data.

H-E-B promoted relief efforts for Hurricane Harvey with frequent Facebook video posts and calls to donate.



Kroger promoted ClickList during the holidays as a solution for last-minute shopping.

14. "How H-E-B Took Care of its Communities During Harvey," Dan Solomon, Texas Monthly, September 6, 2017.

Connected Experiences

Mobile commerce continues to play a greater role across retail categories, with mobile activity accounting for 63 percent of traffic to Index grocer primary landing pages.[15] Nearly all Index grocers with physical stores offer grocery list builders across devices—The Kroger Company offers best-in-class list builders across its portfolio of mobile apps, which earn an average rating of 4.1 stars on the App Store. Customers can use their smartphone cameras to scan items to build lists and consult the apps for the location of a given product in-store.

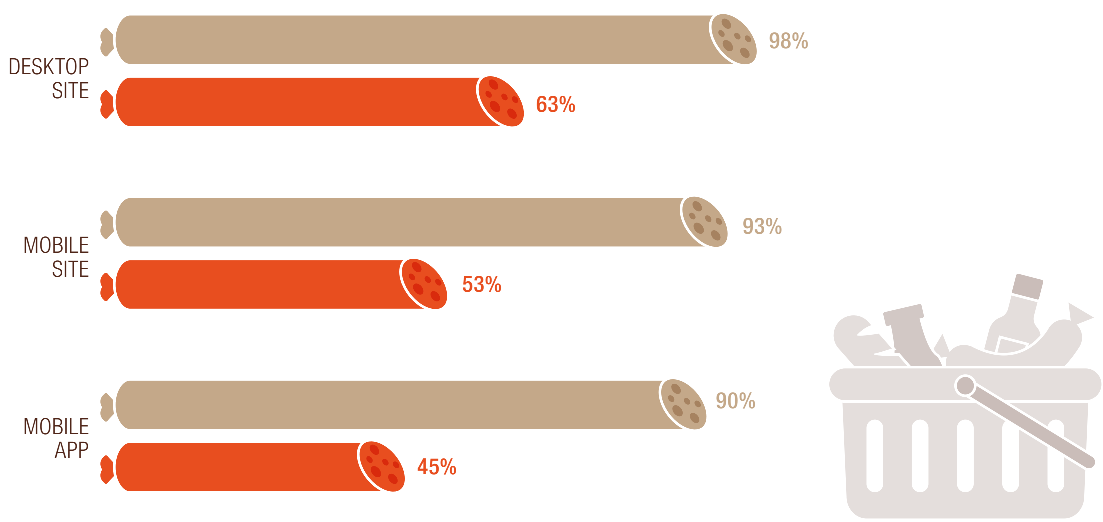
Fewer Index grocers offer m-commerce, however. Harris Teeter, Jewel-Osco, Safeway, and Vons all offer mobile-optimized sites, but fail to keep the experience optimized when customers enter the digital grocery shopping interface. Over 55 percent of traffic to shop.jewelosco.com comes from mobile devices, but lack of optimization of the mobile commerce experience diminishes the grocer's ability to capitalize on these mobile visits. Furthermore, seven grocers offering e-commerce on both the desktop and mobile sites fail to offer e-commerce on their mobile apps, missing an opportunity to drive conversions from customers with proven brand interest.

15. L2 analysis of SimilarWeb data.

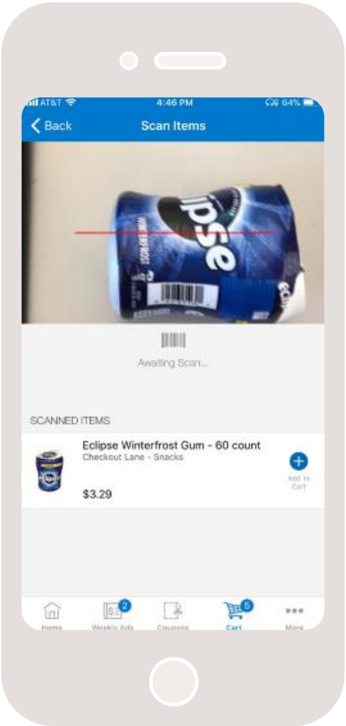
Grocery US: Adoption of Features by Platform

February 2017, n=40 Brands With Stores, Site, Mobile Site, and Mobile App Functionality

Shopping List Shopping Cart



Source: L2 Digital IQ Index: Grocery US, March 2018.



The Kroger mobile app allows shoppers to scan items for easy grocery list building and indicates the aisle locations of products to enhance the in-store shopping experience.

EXCERPT

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L2 Membership Benefits

Inquire About Membership

BENCHMARKING
L2 Digital IQ, Amazon IQ, and Category IQ Indexes provide analysis and rankings for brand performance, profiling best practices and key innovators.

MEMBER SUPPORT
L2 advisors provide members with the support they need to make key decisions and prescriptively assess digital initiatives, offering dynamic guidance as improvements are implemented.

RESEARCH REPORTS
L2 publishes 100+ reports annually, including L2 Digital IQ Indexes, cross-sector Intelligence Reports, and topical Insight Reports. Members have access to L2's entire archive of research.

EXECUTIVE EDUCATION
L2 hosts 65+ events around the world each year, bringing together top scholars, thought leaders, and L2 analysts to share insights and speak on important developments in the digital sphere.

L2 Products

L2 DIGITAL BENCHMARKING INDEXES
Rigorous analysis and benchmarking of brand performance within a specific industry, merchandise category or on Amazon.

- L2 Digital IQ Index
- L2 Amazon IQ Index
- L2 Category IQ Index

STRATEGY MODULES
Customized benchmarking and insights on digital topics that are strategic priorities for brands, including:

- Omnichannel Retail
- Data & Targeting and Loyalty
- Video
- Localization
- Content & Commerce
- Social Content & Strategy

L2 Gartner
DIGITAL IQ INDEX

CONTACT INFO:

740 Broadway, 4th Floor
New York, NY 10003

L2inc.com
info@L2inc.com