

Consumer options for how and where to purchase grocery items continue to expand. As a result, traditional channels are shifting and blurring. The playing field is changing with technology being the main influence behind the trend. Consumers have access to pricing, product information and consumer reviews right from their mobile devices anywhere, any time. Millennial and Gen Z shoppers are bringing less brand and channel loyalty and more reliance on technology. As traditional retailers try to keep pace and new competitors emerge, programs like click-and-collect, boxed meal delivery services and endless online aisles are blurring the lines between eCommerce and brick-and-mortar retail. The online marketplace has become an easier point of entry for upstart retailers – both those companies on a quest to be the next Amazon buoyed by investors or retailer giants who will fund them, and 'mom-and-pop' e-tailers peddling organic, artisan and specialty goods. Industry experts can't comfortably predict the full impact in the next five years but do predict there will be unexpected winners and losers.



THE REALITY

The brick-and-mortar store is not in danger of demise, but it will be forever changed by the tech revolution. In fact, the brick-and-mortar grocery store remains the first choice among shoppers in total spend. To put it into context, 97% of all CPG dollars are being spent in traditional brick-and-mortar retail stores. Consumer packaged goods (CPG) products found in the frozen, deli, dairy, meat and produce sections still dominate the in-store purchase preference among all demographics. However, total CPG growth was minimal between 2015 and 2016 at +0.7% (Nielsen). Much of the positive growth has been attributed to smaller brands that offer natural, organic and perceived healthier options. Additionally, these smaller players are finding it easier to gain access to retail shelf space and an online presence since their products are drawing Millennial and Gen Z shoppers. The squeeze is on for major CPG brands who must secure prime product placement and assortment in the fastest growing channels to maintain share of a consumer market that continues to evolve.

Channel Overview

While brick-and-mortar has experienced slower overall growth than online sales, grocery purchases remain concentrated in grocery retailers (58%) and mass retailers (29%). Trends indicate that in-store shopping will continue to be important especially in the perimeter of the store where shoppers seek fresh produce, meats, cheeses, deli items and chilled categories. The produce and deli departments are growing more than any other brick-and-mortar departments as consumers continue seeking healthier, fresh options as well as convenience. Online sales will continue to grow with dry goods, non-foods, health and beauty care items, general merchandise and other items that ship more easily. While the sheer amount of brick-and-mortar sales is strong, Nielsen forecasts that online grocery spending could grow to \$100B by 2025.



	2016 Sales	Brick & Mortar	Online	2015 vs 2016 % Dollars Sold Online
Total CPG	\$430B	+1.6%	+11.3%	2.8%
Dry Grocery	\$174B	+1.7%	+18.3%	1.8%
Non Foods	\$52B	+1.5%	+19.4%	3.5%
Health & Beauty Care	\$47B	+1.2%	+17.9%	5.9%
General Merchandise	\$24B	+0.3%	+8.7%	15.4%
Dairy	\$44B	-1.2%		Minimal/No Online Presence
Frozen	\$38B	-0.1%		
Meat	\$16B	-2.1%		
Produce	\$16B	+7.3%		
Deli	\$10B	+2.9%		

Source: Nielsen Homescan

A deeper look at eCommerce trends shows that natural channel shoppers are most likely to purchase groceries online, likely related to strong interest from Millennials and Gen Z in the natural/organic/healthy sector. Natural channel shoppers tend to place more emphasis on depth of product variety, especially when it concerns certifications such as non-GMO, gluten free, organic, sustainability claims and animal welfare practices. With endless virtual shelf space, online marketplaces can offer the widest array of products so shoppers can find the exact product they want. Meanwhile, grocery and mass, the two largest channels, have the least amount of interest in digital shopping but still high enough not to be discounted. This also aligns with the level of reliance on technology expressed in a previous Acosta publication, 40% of natural channel shoppers use technology “always or often” for education and insight into healthy foods. Compared to 17% in the grocery channel and 23% in the mass channel.

Shoppers that have purchased groceries online

Natural	53%
Drug	48%
Club	44%
Dollar	43%
Grocery	40%
Mass	37%

Source: Acosta Custom Survey

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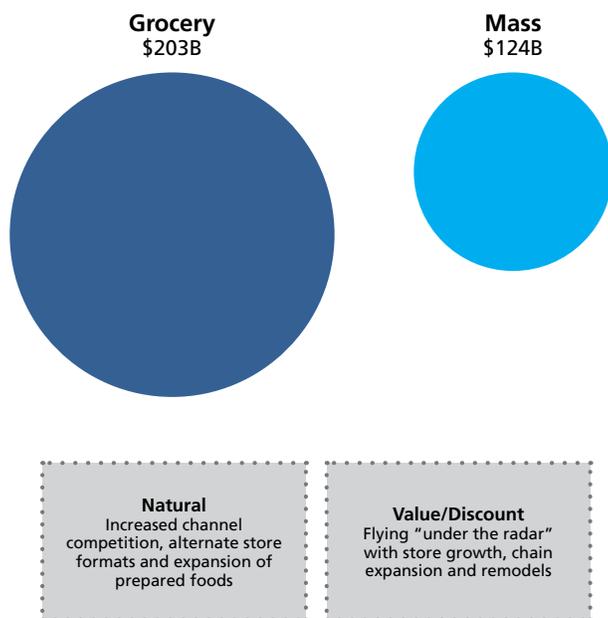
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Spring 2017

If there's one thread of commonality among the macro trends facing retailers, it's eCommerce. While the continued success of Amazon continues to nag at traditional retailers, they are making strides with programs like click-and-collect and various delivery methods. Large eCommerce acquisitions will also continue to blur the lines between eCommerce and brick-and-mortar.

Private Label Pays Off

Discount/value retailers continue to experience growth and growth rates are projected to surpass overall CPG sales by up to 2.3 times (16E – 21E – Kantar Retail). One major threat to other channels is that while the discount/value channel offers primarily private label options, they are able to undercut their branded items to drive foot traffic into their stores and potentially convert shoppers to their private label and establish loyalty. Discount/value retailers are also placing a heavier emphasis on fresh produce offered at lower price points than traditional grocers. They have the ability to be more price competitive with their lower investment in customer service and merchandising. Smaller footprints make it easier for them to take advantage of trends in urbanization, supporting their growing shopper base of Millennial and Gen Z consumers who are more likely to live and work in urban areas.



Key Macro Trends

Grocery	Shifting from traditional grocery to expertise in eCommerce & natural/organic
Mass	Optimization of supercenters, expansion into smaller formats and eCommerce integration
Club	More localized and natural/organic assortment and eCommerce integration
Drug	Retailer consolidation and expansion into better-for-you assortment
Dollar	Retailer consolidation and strong new store growth
Online	A 'disrupter' for all other channels with continued success in non-perishables and other categories continuing to migrate
Convenience	Limited CPG categories driving sales and continued growth into
Pet	Fierce eCommerce competition

Source: Nielsen Homescan 2016 & Acosta Research



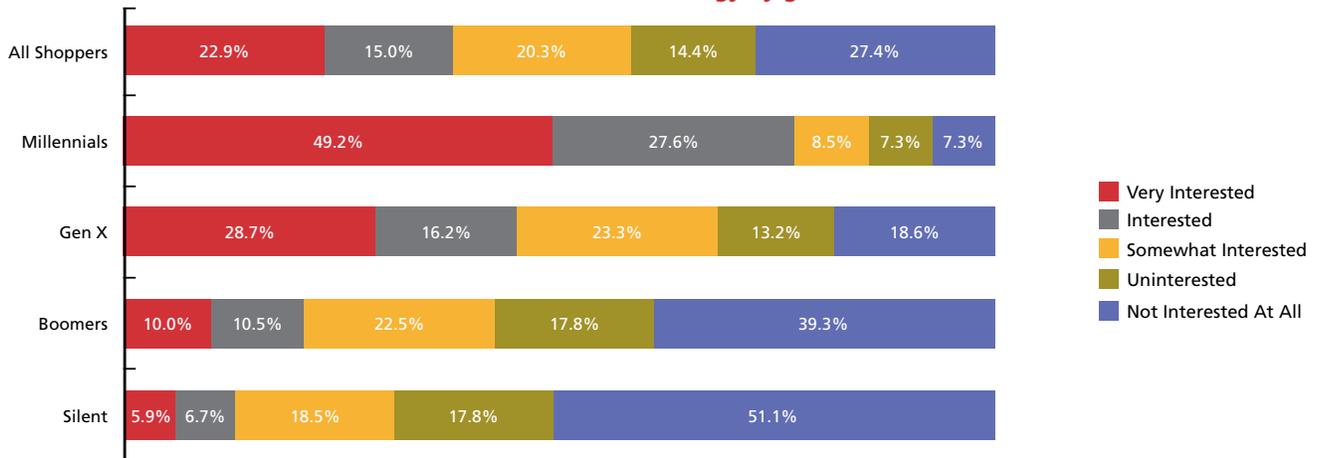
eCommerce vs In-Store

Even the most savvy digital shoppers still often prefer brick-and-mortar stores in certain cases. Some of the more popular reasons to purchase in-store include selecting fresh foods, using coupons and incentives, satisfying immediate needs, convenience, and to experience new and innovative products. In fact, 27% of Millennial eCommerce shoppers say that sampling foods is one reason to shop in person. Buying fresh foods is the most popular reason for shopping in-store and prepared/frozen items are also a key driver of foot traffic. Prepared foods account for 58% of the \$24 billion of deli sales in mid-2016, and are an emerging driver of growth for retailers (FMI). Brick-and-mortar grocery stores that offer "meal kits" create an opportunity to directly compete with online businesses focused on this segment. Additionally, healthier frozen CPG goods are becoming more common and displacing negative perceptions that frozen meals are unhealthy.

TECH TODAY

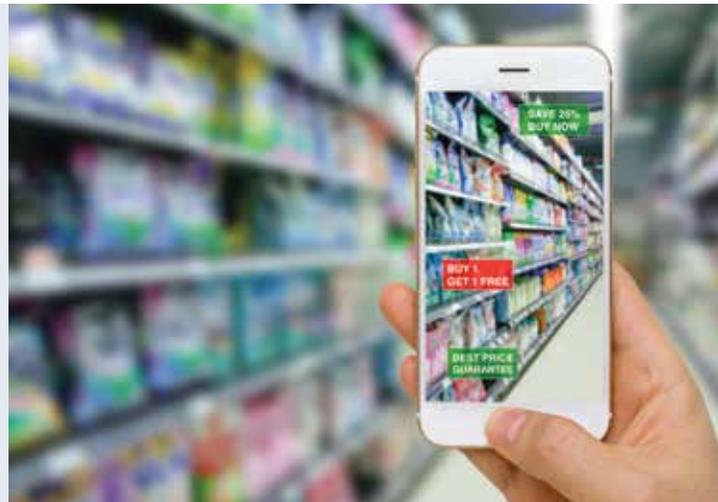
Technology is reshaping the CPG industry and it will continue to have profound impact on the landscape. Forty percent of shoppers use a retailer app and 23% of these users spend time seeking deals before visiting the retail outlet (Acosta Custom Survey). Mobile devices continue to play a role when shopping in-store for price comparisons and digital coupons. Scan and Go, where shoppers scan their own products in-store then pay via an app while still limited in availability is showing increased usage and interest from younger shoppers.

Level of interest in "Scan and Go" technology by generation



Source: Acosta Custom Survey

Retailers are getting more aggressive and sophisticated when integrating eCommerce with brick-and-mortar. Digital initiatives are used to compliment in-store purchases, rather than compete with them. Digital services, like stock lookup availability and better product search capabilities, are among the enhancements integrating eCommerce with the storefront. eCommerce acquisitions and partnerships offering "click-and-collect" shopping have been gaining traction, but come with considerable investment and competition. These services are viewed as necessary evils when seeking to improve the ease of purchase and build shopper loyalty, which marketers consider paramount to gaining market share.



Automating Purchases Not Fully Embraced

Automatic replenishment of products using digital platforms, such as Amazon's "Subscribe & Save" and Chewy.com's "Autoship" remain an option, garnishing 15% of the heavy eCommerce grocery shoppers. The CPG products these services cater to are mainly household goods like laundry detergents, paper towels and trash bags but higher usage is also seen with coffee and pet/baby food. The largest online retailer has also attempted to make it easier for shoppers by making it as easy as pushing a button aligned with a certain product that can be placed anywhere in your household. While these continue to be cutting edge – including built into household appliances – usage is still somewhat limited and 86% of shoppers have either never used or never heard of this technology.

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Convenience, Delivered

The convenience of having products shipped directly to their homes is growing in appeal among consumers. While online grocery sales currently make up only 2.8% of total CPG sales (Nielsen Homescan), 28% of shoppers prefer to purchase groceries online regularly (Acosta Custom Survey). Advancements and cost reduction in shipping methods have played a vital role in the success of eCommerce. Yet these shipping improvements have yet to crack the problems associated with shipping fresh and perishable goods, which is hampering a total solution for tech-savvy shoppers. Nonetheless, certain categories have found success online now that shipping has become more efficient. Nutritional supplements, baby products, over the counter medication, pet care and accessories, cat litter, laundry goods, paper products, coffees and teas, and baby formula are frequently shopped online. These categories will continue to grow their online market share as more shoppers embrace eCommerce. It's expected that other non-perishable categories such as canned goods, condiments, spices and other center-store categories will likely migrate to online at a steady rate in the coming year.

		2016 vs 2015 \$ % Change	
		Online	Brick & Mortar
Nutritional Supplements		27.2	7.8
		72.7	(1.4)
OTC		12.3	5.3
Coffee		6.6	1.7
Toilet/Facial Tissue		10.3	0.7

Source: Nielsen Homescan

Even those consumers who are considered infrequent eCommerce grocery shoppers are warming to digital. They report that within the next year:

59%

are somewhat to extremely likely to try pure play eCommerce websites like Amazon

35%

are somewhat to extremely likely to try click and collect programs

19%

are somewhat to extremely likely to try third party delivery services

Online Pet Food Purchases Defy Traditional Trends

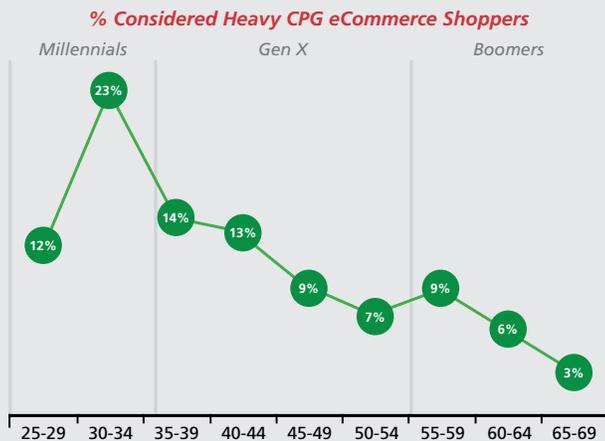
Online pet food retailers can offer a more diverse assortment of brands, natural/organic options and even fill pet prescriptions. While the majority of pet food purchases occur in mass, grocery and pet retailers, 6% of shoppers report the majority of their purchases occur online. Surprisingly, 9% of Baby Boomers purchase their pet food online which surpasses the frequency of all other generations – 3% of Millennial and 5% of Gen X shoppers.



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UNDERSTANDING THE ECOMMERCE GROCERY SHOPPER

Heavy eCommerce grocery shoppers are still dominated by Millennials, followed by Gen X. Frequent online shoppers typically are middle to upper income consumers with larger households. Seventy percent have children, at least half have a college education and males index at a higher rate.



Heavy eCommerce CPG Shoppers: Urban vs Suburban
Which types of online services have you used to purchase groceries?

Service	Urban	Suburban
Pureplay/Direct to Home	68%	52%
Third Party Delivery	67%	17%
Click & Collect	53%	24%

Shoppers Take Advantage of Urban Area Options

When compared to the three methods for online grocery, retailers with mainly just an online presence capture the bulk of heavy eCommerce shoppers. Third party delivery services are also having some success with younger shoppers – these services are still mostly limited to larger metropolitan areas, so usage in suburban areas is almost nonexistent.

Source: Acosta Custom Survey

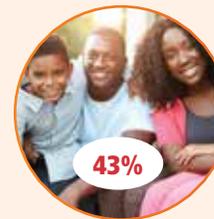
Purchase Influencers

Social media now plays as large a part in influencing online purchases as friends and family. It is key for retailers and manufacturers to determine and optimize their marketing strategies via social media especially since focusing only on in-store promotional tactics is no longer as viable. Although females are the primary shoppers in households, males are more influenced when shopping online by social media than females. Females rely mainly on recommendations from family and friends.

Heavy eCommerce CPG Shoppers: Influencers
Which of the following have influenced your decision to purchase products online?



SOCIAL MEDIA
Males: 56%
Females: 39%



FRIENDS/FAMILY
Males: 34%
Females: 47%



TV ADVERTISING
Males: 28%
Females: 35%

Refining the Online Experience – A Shopper’s Perspective

Among frequent online shoppers, the top five ways to improve the eCommerce experience includes:

1. Lower fees
2. Lower shipping costs
3. Faster delivery time
4. Offer a 360-degree view of the product
5. Improve customer service

Financial and timing barriers are the most important as well as the most costly – lowering fees and shipping costs in a fiercely competitive environment can be a challenge and faster delivery times can require a logistics overhaul. There is also opportunity to ensure your product is being represented at its best with 360-degree product views and high resolution images. The ability to read nutritional labels online is also important – from a Millennial perspective, 26% desire that this information be made available.

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The Shopper Factor

Technology and generational differences have the biggest impact on shopper dynamics but there are other factors at play to varying degrees. Following are some key factors defining the dynamics of today's shoppers:



Health & Wellness

Healthful living continues to dominate the shopping mindset, especially for Millennials who are moving into their prime spending years. Today's consumers are more worried than ever about the foods they eat, in terms of healthy ingredients and long-term effects on health.



Urbanization

The urbanization of consumer's lifestyle and housing preferences is driving smaller footprint stores and digital preferences. Sixty-three percent of Millennials now live in cities (Gen X: 33%; Boomers: 22% - Acosta Custom Survey). This preference for convenience, combined with eCommerce and mobile technology, creates a savvy shopper who considers the internet as an alternative to retail brick-and-mortar during all phases of the shopping cycle. With new same-day delivery services and low-cost shipping options, shoppers are blurring the line between onsite and virtual shopping practices to suit their preferences and needs.



Gen Z Maturing

Gen Z shoppers, typically defined as born after 1995 are entering the marketplace as digital natives. They have grown up in the aftermath of the Recession of 2008 and seen first-hand the struggles their predominantly Gen X parents and others experienced. These life experiences have led this demographic to be more focused on being financially responsible but also instilled an entrepreneurial spirit in them. Gen Z brings higher expectations when it comes to digital experience and they are heavily persuaded by online influencers and peers.



Digital Aptitude

The mobile landscape is changing the shopping habits of consumers at a rapid speed. Shoppers come well prepared before entering a store by accumulating deals prior to their visit, and they are comparison shopping consistently throughout the shopping process thanks to mobile-enabled technologies. Today, an astounding 40% of shoppers use a mobile retailer app, and 23% of those shoppers spend a reasonable amount of time consolidating coupons, deals and lists before shopping (Acosta Custom Survey).

eCommerce Challenges

The industry faces a variety of challenges that need addressing in order to stay competitive in a leveling playing field.

Data & Statistics	Supply Chain Logistics	Packaging	Member/Third Party Fees	Financial Investment
While the CPG industry has had access to a wealth of data on the brick-and-mortar grocery market for decades, eCommerce quantitative data can be difficult or impossible to obtain.	There is a discrepancy between the volume ordering of online retailers and brick-and-mortar retailers. E-tailers typically order less product, which can disrupt manufacturer logistics. Some retailers are also compiling eCommerce orders from stores - it can be difficult to effectively manage on-shelf availability.	A product's packaging must now also consider the ability for it to be shipped and remain fresh. Heavy, fragile or perishable items remain difficult to deliver and require additional, expensive packaging that is often passed down to the consumer.	The largest e-retailer receives +/- \$9B annually in fees from third party sellers to ensure availability. Brick-and-mortar retailers are trying to attract the same shoppers without this advantage.	Brick-and-mortar stores demand more investment in staffing and infrastructure. eCommerce financial models are still being evaluated for profitability.

RECOMMENDATIONS / HOW TO ADAPT

eCommerce will not lead to the demise of brick and mortar retailers but instead it will force retailers as well as brands to re-evaluate their strategies in a world of rising tech-savvy shoppers with almost endless options. It's imperative to respect the differences between channels and online/in-store strategies should complement each other.



RETAILERS

- Brick-and-mortar retailers have an opportunity to differentiate through a comprehensive in-store and eCommerce strategy to meet shopper needs. Develop a strategy that clearly articulates the role of the physical store and how it complements the eCommerce strategy.
- Procurement, category management, pricing and marketing should be combined or coordinated versus separate merchandising strategies for brick and mortar versus eCommerce.
- Understand shopper demand for in-store pickup versus home delivery – with the right delivery/pick up services products can get to customers faster than most Pure Play online retailers. Build a marketing strategy to encourage shoppers to try click-and-collect services by leveraging your local brand equity.
- Analyze and pinpoint opportunities via online and mobile traffic to better understand their corresponding demographics and purchase patterns.
- Clear, easy-to-navigate websites and mobile apps with high definition/360 degree images along with enhanced product descriptions drive conversion.



MANUFACTURERS

- Brand positioning has evolved from ensuring proper shelf placement along with in-store strategies such as end-caps to manufacturers vying for better positioning on websites and mobile apps.
- When purchasing online, consumers lack the sense to touch, feel and even taste so it is key to provide enhanced content, images and video to help bridge this gap.
- The cost of doing business in eCommerce can be high but it becomes more palatable when you consider this is an effective way to deliver your brand message. Studies have shown for every purchase by shoppers online considerably more are researched online and then purchased in the stores.
- Brand loyalty and repeat purchases are higher online than in-store. Be the first brand purchases as shoppers expand to new categories.
- Recognize that product “search” and customer ratings are primary drivers of online awareness.
- Evaluate packaging for eCommerce. There are opportunities to optimize packaging to meet the needs of shoppers while providing comprehensive features and benefits through technology.
- Explore innovative methods to reach and retain shoppers online; i.e. subscription services, meal kits, couponing and sampling.
- Leverage eCommerce analytic tools to evaluate your online presence, content health, search rankings, ratings and reviews and how you benchmark versus your competitors.
- eCommerce CPG sales are still relatively low and categories will be impacted at varying degrees - there is no “one size fits all” plan. Sales and marketing tactics will likely become more complicated, as some categories are more easily purchased online, yet other categories will likely continue to be primarily purchased in-store.

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