Shelf Management

The Value of Getting the Shelf Right

Fourteen thousand miles. Five-times as long as the distance from Los Angeles to New York City. This is the approximate amount of grocery shelf space across the nearly 40,000 grocery stores in the U.S. About 20,000 grocery items are in the market, yet the typical household only purchases three percent of products on the shelf over the course of a year. Getting into a shopper's cart is quite possibly the most important step for every product, but it's becoming more difficult when options are nearly endless for shoppers when it comes to what, where and how to buy. Considering the sheer variety of options, the strengthening of e-commerce, store space shifts and the growth of private brands, challenges exist. In Shelf Management: The Value of Getting the Shelf Right, Acosta explores the dynamics of this topic and explains why and how to employ a comprehensive approach.

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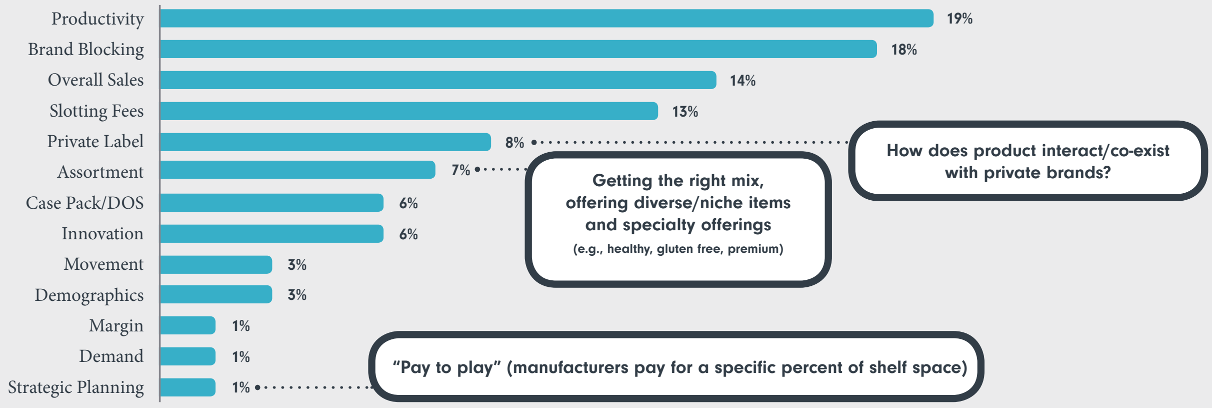
The Importance of a Comprehensive Approach

When it comes to selling at the shelf, it has become imperative to shift attention to a comprehensive approach that includes a variety of aspects: space, assortment, positioning and analytics. Traditional practices such as slotting fees, the 80/20 rule and space to sales still matter, but the rise of recent technological advances is providing game-changing insights. These insights will help create a competitive advantage for leading-edge manufacturers and retailers.

Key Drivers in Shelf Management Decisions

In a survey asking retailers about the key drivers when it comes to shelf management decisions, they prioritized productivity, brand blocking and overall sales. Lower items on their list, such as private brands and a new “pay-to-play” method, will likely call for more consideration in a changing grocery landscape.

Which shelf decision driver is MOST important for retailers?
(% of retailers that view factor as most important)



Source: Acosta Retailer Survey July 2018

Shopper Interaction

What happens if a shopper doesn't find what they are looking for on the shelf? Often, they will simply buy another brand or different flavor. In some cases, however, a shopper will "walk" (delay purchase or go to another store) if they don't find exactly what they want. Out of 50 tracked categories, the "walk rate" can vary anywhere between 20 to 44 percent if the product a shopper typically purchases is not available.

From an overall perspective, if shoppers couldn't find what they were looking for, 17 percent would delay their purchase, while 11 percent would go to another store.

High vs. Low Walk Rate Categories

Source: Acosta Custom *The Why? Behind the Buy™* U.S. Shoppers Survey, Spring 2018

Facing the Moment of Truth at the Shelf

Shoppers report that over half of their grocery buying decisions are made at the shelf. Although there is some variance by category, it is clear that having influence in-store is critical for brand success. Many of the categories where shoppers are making more decisions in-store are in complex categories, like seasonings and chocolate. Decisions made before shoppers are in the store are largely in categories with a higher level of brand loyalty, and subsequently, categories where shoppers are less inclined to purchase private brands.

When do you typically decide which brand to buy?

In-store: 55%

- **22%** look through section for best price/value
- **20%** have a set of brands they typically choose from and purchase based on what appeals to them at the shelf
- **13%** decide at the shelf based on what flavor/type or package they need, or other resources

Categories where purchase decisions occur more often in-store:

- Spices/Seasonings
- Cookies
- Meat Marinades/Rubs
- Chocolate Candy
- Canned Tuna

Out of store: 42%

- **17%** decide at home when making a list
- **11%** decide based on what's on sale in ad/circular
- **9%** decide before they shop but it's not always on a list
- **5%** decide based on coupons

Categories where purchase decisions occur more often out of store:

- Toothpaste
- Butter/Margarine
- Cereal
- Eye Care
- Laundry Care

Source: Acosta Custom *The Why? Behind the Buy™* U.S. Shoppers Survey, Spring 2018

Product Placement

Product placement can influence shoppers making their decision at the shelf. Those positioned at eye-level or first in flow will be seen first and therefore will have a higher probability of being purchased. Strategically, to drive higher sales, products with a higher price point should be placed in these prime positions.

Shelf Spend Beats Trade Spend in Driving Sales and Profits

From a total store perspective, 66 percent of units sold are not promoted. A promotion may bring a short-term gain, but the impact can be difficult to quantify, return on investment is variable and brand equity may potentially erode. As competition heats up in the grocery industry and more shoppers are channel shifting, trade spending may be unsustainable as revenue declines.

On the other hand, shelf management can provide a six percent sales lift that continues to pay dividends for the manufacturer and the retailer over the long term, proving that trade spend may not be as effective at delivering return on investment as shelf management (Source: APT Shelf/Planogram Study, July 2018).

Breakdown of Total Store % of No Promo Units by Department

Source: Nielsen Answers on Demand Core 52 Weeks Ending 7/14/18

Returns on Promotions Diminishing

% Lift Across All Departments

	2015	2016	2017
Any Promo	29.8%	28.0%	26.7%
Price Decrease	24.9%	23.1%	22.1%
Feat. w/o Display	40.1%	36.6%	34.7%
Display w/o Feat	19.4%	18.1%	16.7%
Feat. & Display	84.7%	77.4%	71.0%

Year after year the industry has experienced a decline in lift from all promotional tactics. On average, "fixing the shelf" achieves a six percent sales lift while spending on trade often results in a declining return.

Source: Nielsen Answers on Demand Core

On average, manufacturers spend one-third of one percent on shelf management versus trade spending—yet shelf management represents 66 percent of their sales and 85 percent of their profit.

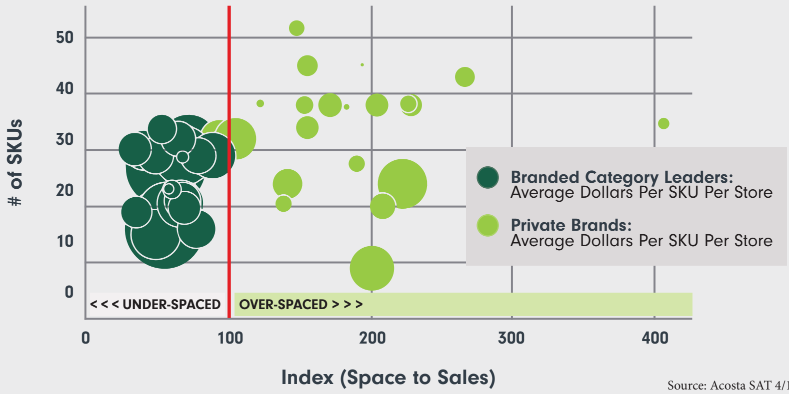
Source: Sales via Nielsen Answers on Demand; Profits via Acosta Internal Resources

Key Trends Impacting the Shelf

Private Brands

Private brands tend to receive more shelf space than they deserve, which can have a negative impact on productivity and out-of-stocks. In fact, private brands are 11 percent over-spaced on average (Source: Acosta Space Analysis Tool). This preferential treatment for private brands is not necessarily earned, and the wide assortment of private brands can lead to out-of-stocks at the shelf for top-selling items.

Case Study: Private Brand Coffee is Often Over-Spaced



Source: Acosta SAT 4/17/18

- **Private brand coffee is the category leader at only 2 of 23 retailers and over-spaced at all but one**
- **On average, branded category leader SKUs drive 156% (or 2.5x) more dollars per SKU than private brands**
- **Private brands tend to be more widely assorted with an average of 35 SKUs while branded category leaders average 25 SKUs**

Center Store Shrinkage

As the perimeter of the store continues to gain in popularity, many retailers have responded by decreasing the size of center store to give more space to other areas. Space that was once taken up by frozen foods, canned vegetables and general merchandise has now been reduced to make room for delis, prepared foods, organic foods and fresh produce.

The shift is a business decision. Within conventional grocery stores, household annual spend on produce has increased 12 percent since 2014, while center store spend has declined 0.5 percent. As a result, the pressures on center store shelves are expected to continue as total square footage space is on the decline.

Future supercenters are expected to shrink selling space per store, and grocery retailers will remain stagnant. Meanwhile, value grocery stores, which are smaller in size, are leaders in store growth. Since value grocery retailers often focus on private brands, the competition for attention for national brands will grow.

E-commerce

As online grocery shopping continues to grow, it has created a negative impact on brick-and-mortar retailers. Twenty-eight percent of shoppers said they shop online-only grocery retailers “at least occasionally,” an increase of more than 10 percent since 2015 (Source: FMI). Some categories, like non-foods and pet foods, are more prone to the impact of online shopping, concluding that fewer shoppers are coming face-to-face with the shelf.

One of the ways retailers have responded to the e-commerce growth is by offering grocery pick-up services. Ten percent of shoppers have utilized this service in the past year, and it is favored mostly by Millennials (16 percent) and especially Millennials with children (24 percent). This creates a challenge for retailers, resulting in more out-of-stocks on the shelf if there isn’t a separate warehouse or stocking area. For retailers that have a separate stocking area, they have reallocated floor space which leads to reduced shelf space.

With the rise of e-commerce, the “endless aisle” is the expectation from shoppers—essentially no limits on assortment—as the lines between brick-and-mortar and e-commerce shopping blur. As a result, some retailers have explored the idea of offering less assortment in-store with an expanded assortment available via their online platform. So far, the response from shoppers has been mixed. Millennials are the biggest fans of the model, with many indicating an existing preference for online shopping, while older generations are more hesitant for a variety of reasons.

Shopper Voice: Endless Aisle Perceptions

- **It would ease overcrowding the shelves/store**
- **Feeling overwhelmed with in-store options and not having the time to decide but having more time to make decisions when shopping online**
- **Practical and convenient**

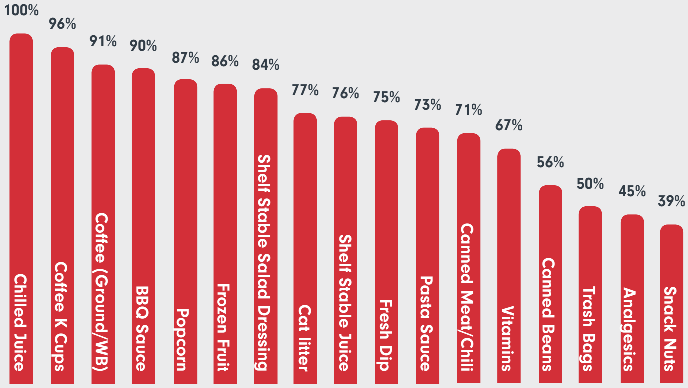
- **Would switch stores to get the best selection in-store**
- **Requires more time** (shopper may not know about other options unless they spend time browsing online)
- **Coupons and discounts are better in-store**

Source: Acosta Shopper Community Discussion July 2018

Majority of Category Leaders Are Under-Spaced

While there are an abundance of shelving decisions to be made, one example would be how to best allocate space for category leaders. Seventy-one percent of category leaders are under-spaced (Source: Acosta Space Analysis Tool – 23 retailers; 19 categories). The challenge for manufacturers is that private brands are continually allocated too much space relative to the number of sales and units they are driving. These types of decisions can be better informed and evaluated by advancements in technology that can benefit the manufacturer and retailer.

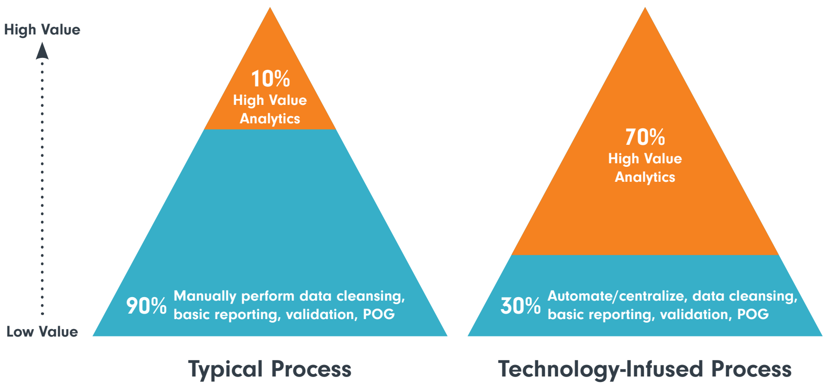
% of Category Leaders That Are Under-Spaced



Technology and Analytics Support Shelf Management

Shelf management has transformed from an art to a new level of science as we continue to see advancements in technology and automation. At times, manufacturers and retailers have chosen to invest in other category management practices besides the shelf, since it can be difficult to quantify the impact of shelving activities. Data doesn't lie, and new technology sheds light on shelving impact, store-specific planograms and in-store shopper responses. These high value analytics are powering major changes in space and category management.

Retailers continue to grow the number of planograms for their stores. Technology is creating a more efficient space management process, and therefore, enabling companies to spend more time on high value analytics which is what truly drives sales.



TODAY	TOMORROW
Point in time	Continuous monitoring
Assumed compliance	Confirmed compliance
Manual audits	Image recognition
Category scope	Department, total store
Space to sales	Space elasticity
Space optimization focus	All shelf parameters
Diagnostic	Predictive

Technology Changing the Landscape

Video Mining

Video mining is a technology that can answer questions pertaining to understanding how products are being sold and by gaining a deeper, more thorough understanding of why a shopper may or may not purchase via a three-step process:

1. Multiple sensing technologies, such as video.
2. Intelligent data integration combining other data sources and contextual information to gain a better understanding.
3. Prescriptive analytics that give context to the data and develop actionable insights.

Virtual Shopping Research

When it comes to space planning, the ability to test an environment offers great insight. Virtual shopping research tracks shopper response to a digitally created shopping experience to find the optimal balance between speed, cost and accuracy.

This full-scope experience helps identify in-store conditions that have the biggest impact on shopping behavior. Different scenarios, from fixtures and resets to packaging and assortment combinations, can be evaluated and measured before making financial investments. Virtual shopping research helps identify in-store conditions that have the biggest impact on shopping behavior.

Macro Space Planning

It is crucial to utilize advanced total store space analytics and technology to assess and measure space by category or department and understand the best adjacencies to optimize sales for the store. Many studies indicate that the average shopper spends only eight seconds shopping a category. Not only is it critical to position brands and segments correctly to optimize sales, but equally important to strategically position categories within the aisle and departments within the store as well.

Simulated Eye Tracking

Technology provides an inside look at what shoppers notice in-store. For example, Acosta's partnership with 3M and its Visual Attention Software, provides the opportunity to predict what shoppers will see in the first three to five seconds of shopping and can often influence what the shopper ultimately purchases from the shelf.

Transforming Images into Insights

By advancing the tedious in-store audit to an online platform, Trax captures everything a shopper would see in-store and digitizes shelf images down to the SKU level. This insight helps minimize the issue out-of-stocks, which are estimated at $54 billion in lost sales, ensure effective in-store execution/pricing, as well as the ability to see what competitors are doing at the shelf. An alliance of Trax, Nielsen and Acosta allows users to continuously measure, optimize and influence store strategy. Users receive real-time audit data to spot opportunities and execute the right merchandising in the appropriate stores, including:

- **Monthly Shelf to Sales Opportunity Identification:** Understand on-shelf availability, sales and item productivity and display presence for all products in the category across most major retailers.
- **Visual Proof of Shelf Conditions and Compliance:** See what shoppers see to gain deeper insight to which stores are off-strategy.
- **Benchmark Shelf Standards to a New Retail Currency:** Leverage the shelf quality index to discover opportunities to improve shelf conditions and sales.

Shelf Images POS Data Powerful Visualization

trax ≡ nielsen

In association with Acosta

Recommendations

1 Continue to elevate the importance of appropriate shelf management investment now that technology has simplified the process of understanding the impact and return on investment. Leverage this technology to:

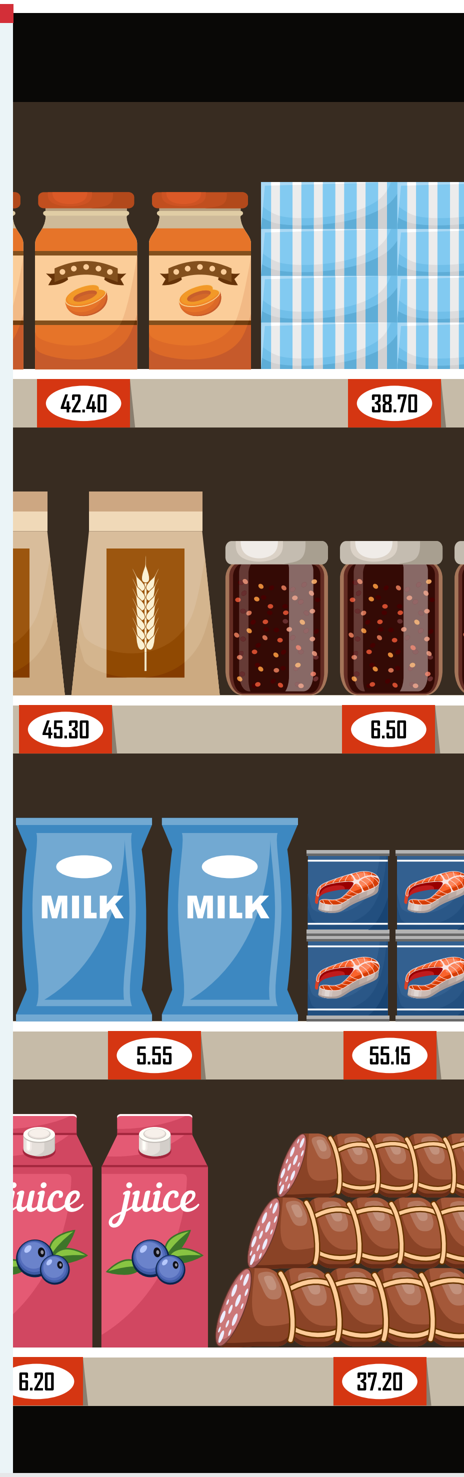
- Implement macro space planning to optimize total store, department and aisle allocation.
- Automate planogram creation.
- Test various scenarios without investing sizable investment to optimize shelf layout.
- Gain a better understanding of how shoppers view and interact with the shelf.
- Deploy continuous compliance monitoring.

2 Consider center store profit contribution, especially since new technology empowers retailers to better optimize assortment. While most physical shelves are in the center of the store, retailers are beginning to dedicate more space to the perimeter.

3 Utilize transferable demand analytics to determine optimum product mix.

4 Consider category and brand promotion impact when allocating space and profitability when it comes to product positioning.

5 Avoid over-spacing private brands to reduce out-of-stocks on high velocity items.



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