Customer First retailer responses for the year ahead in 2021

Report - March 2021

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Key challenges and trends to address for Customers

Throughout the past year Grocery retailers have responded well to the challenges and opportunities of the Covid-19 pandemic. We believe 2021 will be no different in terms of the speed, resilience, and scale of responses required to meet consumer needs.

As we listen to our clients, understand the data, and synthesise industry perspectives, we have identified nine trends – for Customers and Retailers – that will shape focus and future investments.

Our belief is that the retail industry in general, and grocery and pharmacy in particular, is standing at the forefront of a new retail landscape that will look very different from how things used to be.

Nine Trends for the Future

Foundation Focus - Safety and Security: putting Colleagues and Customers First

Without doubt, critical attention to continued safety and security in the shopping experience for both Colleagues and Customers is the most important priority around the world.

Health and safety continues to be a concern everywhere, and Retailers need to build trust every day with how well they listen, adapt and respond to needs of both Colleagues and Customers.

What this means for retailers:

- Safety, cleanliness, and social distancing practices for staff colleagues and shoppers will continue to be the number one priority to make shoppers feel safe
- 'Speed to shop' increased in importance in driving customer emotional bonds during Covid; this is seen as a reflection of Customers' desire to keep safer by reducing the amount of time and risk spent in store. Retailers who delivered a faster shopping experience scored higher in our Retailer Preference Index (RPI) in 2020, for example.
- Shoppers are watching how well store staff are being protected and cared for by their employers, and are making judgements about their own safety accordingly

Shifts in Customer behaviour that retail environments may endure post pandemic

Customers		Retailers
Value		'Online Tipping Point'
Local	Safety and Security	Digital Acceleration
Food @ Home		Community
Personal Wellbeing		New Revenue Streams

Customer trend 1 - **Value**

- Shoppers will adopt a more frugal approach to shopping, actively seeking ways to save money, and adopting savvy behaviours including better management of household food waste
- Value becomes more important as a driver of store and product choice, especially for a growing segment of price-sensitive shoppers
- The shift to bigger baskets and less frequent visits will mean “value” on the overall basket will be top of mind with shoppers looking for continued reassurance

What this means for retailers:

- A shift of investment in everyday low prices on price sensitive lines and categories, and optimisation of promotions
- Strong growth of private labels and discount brands, which will continue to outperform national brands
- Spending on non-food is constrained
- Introduction of more incentives to win the bigger weekly shop and drive continued repeat trips — through personalised and targeted offers based on different shopper needs and segments
- Growth of Discounters will accelerate provided they can offer enough range for the “first-stop” shopping mission
- After the Recession of 2008-9, price sensitivity lagged for several years. Most consumers expect to remain price sensitive through 2021 and at least into 2022, according to our Consumer Pulse research

Delivering Value: Customer First Best in Class

Tesco’s Value Reset places base prices at front and centre. Tesco concluded that Customers are looking for a one stop shop again, as demonstrated in fewer trips and bigger baskets during Covid, and that responsible trade driving has led to a decrease in promotions, thus creating an opportunity to ‘reset’ the Value strategy. Recognising that Value will become an even more important primary driver of retailer choice important in the coming recession, Tesco aimed at the biggest drivers of value perception - competitive and fair prices at the till – and activated two key strategies:

To deliver on the promise for ‘best value day in and day out’, Tesco reduced prices on more than 500 items to match Aldi, and simplified promotions by using Customer insights to convert some promotions to lower everyday prices. Their Clubcard Prices strategy offered card-member prices on selected categories across the store to reward loyalty.

Customer trend 2 - **Local**

- Shoppers are making fewer trips, and staying closer to home
- Less cross shopping, but formats and channels are still shifting as shoppers settle into their new preferences as the pandemic continues, and in the Recovery phase

What this means for retailers:

- More Shoppers and more full shop missions in medium-sized formats in terms of frequency and basket size
- Increased demand on localised production, sourcing, and ranges
- Increased focus on role of the store and retail brand in local communities. Active support for vulnerable groups, food banks, local charities, and essential workers will be an important part of this.
- New, disruptive local formats (trialled during the pandemic) will expand. For examples:
  - **Grocery Neighbour in Canada** – a fleet of trucks that each operate like a supermarket on wheels
  - **Sysco@Home** – distributor of food products to restaurants and hotels are now offering delivery to regular households
  - **Instagram app take-out and delivery from local** (quick service restaurants) QSRs and restaurants
  - **Online farmer's markets**

Being Local: Customer First Best in Class

Usave eKasi mobile stores bring food to the people. Usave, part of the Shoprite Group in South Africa, operated mobile trucks to serve Customers in more remote communities during Covid. Customers were able to save money in this time of great need in order to put more food on their tables, because they could save on their personal travel costs by not having to make use of public transport to get to shops, thereby enabling them to also stay safer. The eKasi trucks offered a limited range of essentials at same-as-store everyday low prices.

Customer trend 3 - Food@Home

- With an eventual reduction in social distancing, food-away-from-home spending is expected to improve somewhat but will likely struggle until vaccines are widely available and Covid-19 variants have been managed
- For restaurants, cafés, and QSR (quick service restaurants): social distancing requirements will continue to limit available seating
- Limited mobility is a factor that will continue to limit food-away-from-home for households with at-risk people. An estimated 40% of households still have vulnerable or at-risk members.
- Shoppers continue to show a stronger interest in skills for home cooking; the place for “food adventure” is shifting from restaurants to home

What this means for retailers:

- Increased fresh and frozen penetration across the shopper base , with US research from the Food Industry Association showing that frozen food sales grew in both dollars (+21%)
- Demand for meal planning and wider store cupboard repertoire
- Innovation for take-home solutions accelerates, e.g., takeaway meal deals or recipe boxes, drive throughs, third-party delivery solutions, and dark kitchens
- Expand CRM content and online platforms to educate and inspire, e.g., recipe channels and food adventures
- More cooking and health advice and services in stores

1 in 5 of us are cooking more meals from scratch

1/4 of us are also eating less pre-prepared food

1/3 buying more frozen food, and **1/2** freezing more fresh

Food@Home: Customer First Best in Class

Foodstuffs’ New World banner helps Customers upgrade their food prep tools. Recognising that their Customers were cooking more at home, seeking food adventures, and therefore likely to need practical help, the chain ran a promotion that awarded high-quality SMEG Italian design kitchen knives. Shoppers earned a sticker for every $20 spend, along with weekly bonus stickers and a cash top-up option, which were then redeemable for a selection of highly-valued knives or a knife block. Called their “most successful promotion ever”, the offer also deeply connected emotionally and practically for Customers.

Exito in Colombia have partnered with Rappi, a last mile delivery partner, to grow their take-home business. This service includes:

- 35-minute delivery via 3,500 delivery bikes
- Choose from 12k SKUs – up to x items; big deliveries need scheduling
- Free delivery if over $20 or later than 35 minutes
- Order on Rappi app or website

Customer trend 4 - Personal Wellbeing

- The pandemic has elevated personal and home hygiene significantly and we see this continue to grow even beyond the pandemic
- Healthier eating and habits to build immunity are practices many households are undertaking
- Shoppers want a kinder, more empathetic, and more humane society

What this means for retailers:

- Help Shoppers focus on food and nutrition, physical and mental wellbeing, e.g., January's Vegan Challenge (US) and Veganuary (UK)
- Growth in NPD in new personal protection and health categories
- Potentially a refocus on pre-pack as hygiene factor, and an elevation of animal welfare concerns as it relates to food processing
- Sales of plant-based meats are up over 200% (US), as shoppers are fearful of contracting the virus from infected meat following significant outbreaks at meat packing facilities
- Fresh fruits and vegetables come into even greater focus, including those immunity builders like citrus, red bell peppers, broccoli, garlic, ginger, spinach, papaya, and kiwi. And don't forget yogurt, poultry, shellfish, almonds, sunflower seeds, and green tea.

Personal Wellbeing: Customer First Best in Class

Tesco launch a new range of vegan meals and sets sales targets for plant-based alternatives. Tesco committed to boosting sales of meat alternatives by 300% by 2025 in order to offer shoppers greater well-being choices and more sustainable options. People are paying closer attention to their diet during the Covid-19 lockdown and increasingly adopting 'flexitarian' diets – cutting down on meat and dairy whilst eating more plant-based foods.

Retailer trend 1 - Online Tipping Point

- Driven by massive demand for safety and the need to maintain social distancing for vulnerable people, the crisis has forced grocers to rapidly increase capacity and speed for both home delivery and click & collect
- Online sales are two to three times pre-Coronavirus levels, depending on retailer capacity, and could be higher if services could have been made available
- Fresh food is now more readily accepted in online baskets

What this means for retailers:

- An ongoing demand has been stimulated for online and click & collect services, as both consumers and retailers clearly see the 'art of the possible' now
- Hypothesis – the long-promised future of 15+% of sales in the online channel is now here; we have reached the tipping point, where future growth is dependent on developing and profitably optimising the online channel

Online Tipping Point: Customer First Best in Class

Tesco more than doubled delivery capacity to 1.5 million slots per week in just five weeks, including serving 674,000 vulnerable customers who were identified using Customer data science. At the same time, the availability of click and collect was stepped up to represent now about a quarter of online orders. In growing eCommerce sales from 9% prior to 16% of revenues during the pandemic, Tesco also created several new micro fulfilment centres, increased delivery van capacity by 21%, and instituted a Delivery Saver subscription model.

Target reported that online sales nearly tripled during the pandemic as shoppers relied more on services like curb side pickup amid concerns about infections.

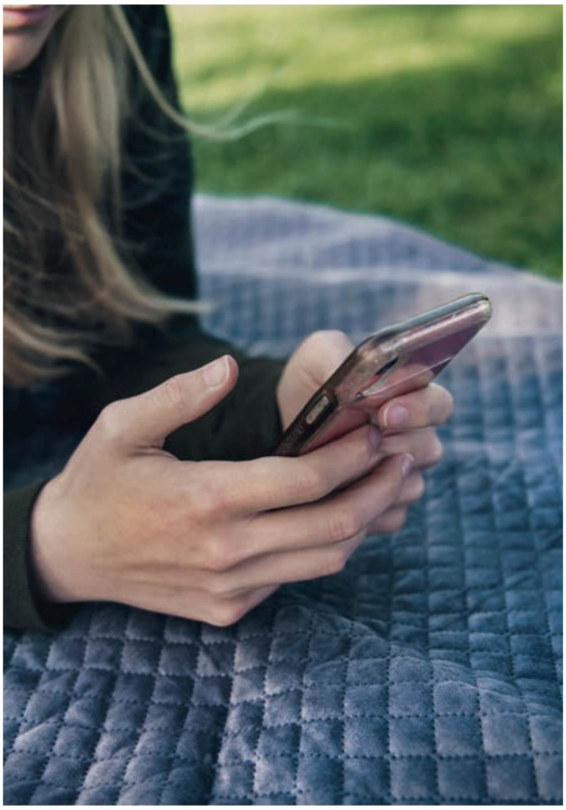
Retailer trend 2 - **Digital Acceleration**

As a corollary to the online tipping point and to the Customer themes around frugality and personal well-being, demands for more useful and helpful digital capabilities are increasing. Also, we see that shoppers are increasingly fearful of virus transmission through paper exchanges and believe that a transformative digital experience is becoming preferred. For examples:

- Pre-trip planning, e.g., shopping lists, ‘recommenders’ like cheaper or healthier alternatives, and crowd-avoidance ‘when-best-to-shop’ applications
- Self-scan and checkout
- Cashless payment apps

What this means for retailers:

- Amplify benefits of the app and improve its functionalities
- Increased need for digital content at pre-trip stage, beyond just digital offers (e.g., recommenders)
- Move from physical paper adverts to digital weekly adverts, efficiently personalised using Customer science



Digital Acceleration: Customer First Best in Class

Raia Drogasil introduced 120+ daily personalized offers for Pharmacy and Drug Customers via a new app, improving loyalty and frequency amongst their app users

Coop Denmark created a seamless app experience, combining the in-store experience with that of the app itself. The platform works both on- and off -line across the entire shopping journey; from choosing recipes, purchasing within the store and gaining loyalty points and rewards, to watching cookery videos at home. In store, the experience is “a more realistic version of Amazon Go” as a self-scan app allows payment via an e-wallet and enables payment at the till via the customer’s device, which is linked directly to the customer’s dividend, bonus wallet, or credit / debit card. Customers simply scan a product once, then skip the till queue by paying automatically through their device. Electronic e-receipts are then available to the Customer in near-real time within the app.

Retailer trend 3 - **Community / Social License**

- Through this pandemic Shoppers have lent retailers new levels of trust
- Retailers have a unique opportunity — at this moment — to harness deeper emotional loyalty to banners and stores as pillars of the community
- Store employees are recognised as unsung heroes, and deserving of greater recognition everyday
- Those retailers who have shown a willingness to operate for the public good will benefit from goodwill in the form of increased loyalty

What this means for retailers:

- Expectations of increased corporate good citizenship via support to local community initiatives, e.g., food banks; local charities, community needs
- Support expected to more-local food producers and to shrinking the supply chain overall
- There will be an increased focus on food waste practices in stores as the trend toward conscious consumerism accelerates
- Increased focus on national sourcing, e.g., "Buy British"
- Employee and community protection from the Coronavirus is a social license issue too

Community / Social License: Customer First Best in Class

Amazon is helping vaccinate thousands of people through pop-up clinics in Washington State and Florida. Kroger is offering a bonus of $100 to every employee who gets a Covid-19 vaccination. DoorDash delivered groceries and prepared meals to households in need in partnership with United Way Worldwide. In partnership with Nestlé, freshly donated $500,000 to Meals on Wheels America.

Retailer trend 4 - New Revenue Streams

- Needing to significantly invest in Value and to accelerate their online and digital offerings, retailers will increasing need to find money by harvesting alternate revenue streams. We see two vitally important new revenue sources from commercialising retail data and media assets.
  - Data insights to drive category growth and promotional effectiveness, and subscription monetisation
  - Media Insights to integrate messaging to Customers, which grows overall effectiveness of advertising and person-alisation investments, along with direct subscription monetisation

What this means for retailers:

- Data insights used in a win-win model for both retailers and suppliers drive category growth as well as top-line sales revenue growth. Best practitioners have realised 2% to 5% in per-category growth. Direct revenue for insight subscriptions adds 0.1% of total turnover
- Promotions insights drive 1% to 4% sales growth, and direct monetisation of 0.1% of total turnover
- Media insights contribute to a 1 to 2% increase in sales, and direct monetisation of up to 1% of total turnover

New revenue streams: Customer First Best in Class

Best practice retailers are adding 25bps to 50bps to their EBIT, as illustrated below:

New revenue streams allow retailers to add significantly to their bottom line

Shopper Insights	Promotions Insights	Media
Revenue **0.1%** of total turnover	Revenue **0.1%** of total turnover	Revenue **1%** of total turnover
2 to 5% Increase in sales	**2 to 4%** Increase in sales	**1 to 2%** Increase in sales

Translates to significant EBIT Opportunity
0.25% - 0.5% percentage points

dunnhumby THE WORLD'S FIRST CUSTOMER DATA SCIENCE PLATFORM

dunnhumby is the global leader in Customer Data Science, empowering businesses everywhere to compete and thrive in the modern data-driven economy. We always put the Customer First. Our mission: to enable businesses to grow and reimagine themselves by becoming advocates and champions for their Customers.

With deep heritage and expertise in retail — one of the world's most competitive markets, with a deluge of multi-dimensional data — dunnhumby today enables businesses all over the world, across industries, to be Customer First.

The dunnhumby Customer Science Platform is our unique mix of technology, software and consulting enabling businesses to increase revenue and profits by delivering exceptional experiences for their Customers – in-store, offline and online. dunnhumby employs over 2,000 experts in offices throughout Europe, Asia, Africa, and the Americas working for transformative, iconic brands such as Tesco, Coca-Cola, Meijer, Procter & Gamble, Raley's, L'Oreal and Monoprix.

Connect with us to start the conversation

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