RETAILER PREFERENCE INDEX

Fifth Annual **US Grocery RPI**

dunnhumby

Changing Customer Habits Are Driving Grocers to Reinvent Themselves

In dunnhumby's fifth annual U.S. grocery retail rankings, a pack of retailers rise up the ranks

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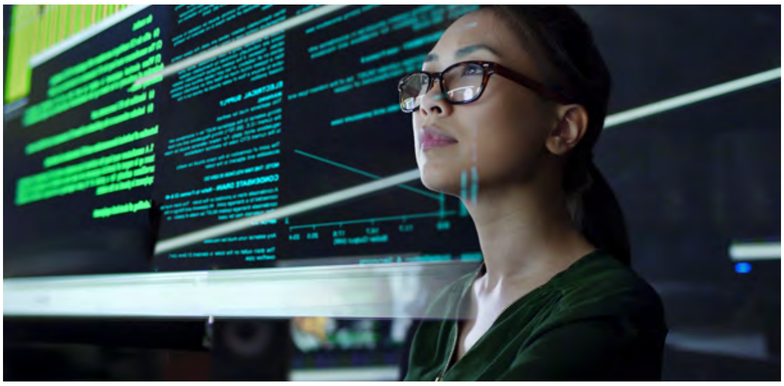
I. Executive summary

Over the past five years, dunnhumby, a global consulting and technology services firm, has published reports on the needs of grocery shoppers and rankings of their favorite retailers. In the U.S., this is the fifth Retailer Preference Index (RPI) report, which enables us to draw on recent historical data for insights. The latest RPI has helped us to identify continuous trends as well as new trends that retailers ought to note.



What is new is that while Price and Quality are still the top two concerns, they are less important than they were in prior pre-Covid reports. There are other concerns (or Customer *values*) that have arisen at a time when businesses in all sectors are going through a time of uncertainty and need for transformational work in order to compete with the likes of omnichannel giants like Amazon, which is back in the number one spot after trading that spot with regional leader H-E-B in last year's RPI.

We call this the Age of Reinvention for grocery retail, and the RPI reports on retailers who did best during the past year with Customers and are perhaps more favored to do well in the coming year, if not years. Retailers can use this time to pay close attention to what the shopper actually wants. This is the only grocery retail ranking that includes the Customer's needs and emotional connection with Retailers.

We think of this as a Customer-First approach to retail, where the premise is that the one thing grocers must focus on is what the Customer wants.

Our Fifth Annual Retailer Preference Index (RPI) ranks retailers based on how well they perform on shopper needs that matter most for driving financial performance and emotional connec-tion with shoppers.

Among the findings of this report:

- **Leaders in 2020-21:** For the second year in a row, Amazon tops our ranking, followed again by H-E-B. Market Basket rounds out the top three. Other mainstays of the 1st Quartile include: Trader Joe's, Costco, Publix, Aldi and Wegmans.
- **Impact of Covid:** The pandemic shifted the center of gravity for consumer needs. Price and Quality are no longer head and shoulders above all other Customer Preference Drivers in securing superior, long-term sales growth and emotional connection with shoppers. Price now sits alone at the top. Digital sits even with Quality for the first time and is near Price in its weight in driving retailer success.
- **Rise of Speed and Digital:** During the pandemic, retailers who drove improvements in the areas of Speed and Digital, especially if they already had advantages in these areas, tended to have the best year-over-year short-term momentum. Retailers who focused on saving Customers time had 9x higher year-over-year sales growth than retailers who focused on providing high quality products and experiences. Over the long-term though, savings-focused and quality-focused strategies have similar growth rates.

- **Growth of Digital:** Digital's share of total grocery sales more than doubled during the pandemic, from ~5% to ~10% of sales, and this surge has more staying power than even consumers initially thought. Digital share has held steady since 2020, and will likely hold in 2022. This is different from last fall, when consumers anticipated giving a third of their eCommerce sales back to brick and mortar. This finding is consistent with broader, Covid-driven behavior changes, which approximately 70% of consumers say have cemented for the future.
- **Digital and shopper behavior:** Despite these shifts, half of the U.S. grocery shopping population does not buy online and has no plans to, even with Covid giving them reason to do so to prevent infection. Additionally, nearly all online shoppers still buy in brick and mortar, where roughly 90% of all Customer dollars will continue to be spent. The Covid-era has accelerated the need for grocery retailers to heighten their omnichannel offering, more so than simply their digital offering. Consumers are now more empowered than ever to choose how they want to shop for each particular shopping mission.
- **Retailers who use their own eCommerce platform, versus using Instacart or other third party platforms, have better customer perception of both the eCommerce shopping and delivery phases and performed better financially.**
- **Growth by Quartile:** Retailers who rank in the 1st Quartile on our RPI ranking have long-term sales growth that is 9x higher than retailers in the 4th Quartile, 2x higher than retailers in the 3rd Quartile, and 1.5x higher than retailers in the 2nd Quartile. They also have superior short-term momentum to those in the other three Quartiles, managing solid gains in 2021 surpassing even the height of the 2020 Covid surge in sales, while some other retailers struggled to tread water.
- **The Customer Value Core gives way to the Customer Value Map:** The dominance of price and quality has weakened. Retailers have more freedom to reinvent themselves with a broader set of values. The top Customer Preference Drivers this past year were Price, Quality, and Digital.
- **Covid-driven increases in workload and turnover including** the changing nature of employee tasks brought about by the surge in eCommerce, the increased focus on diversity and inclusion, and the general trend we see in the economy of workers looking to reinvent themselves is also requiring grocers to reinvent how they attract, engage, and retain talent.
- **Developing a winning Customer value proposition and employee value proposition go hand in hand.** 1st Quartile retailers easily outperform 2nd, 3rd and 4th Quartile retailers on all building blocks of Employee Engagement. It appears a 1st Quartile retailer's ability to consistently maintain competitive advantage over the rest of the market is directly related to the uniqueness of their employee value proposition. Additionally, employees pay the love their company shows them forward to shoppers. The higher the employee engagement, the more likely a shopper is to say that a retailer's employees value them. Retailers need to have a carefully crafted strategy for managing the direction of their employee value proposition, just as they should for their Customer value proposition.

- **During the pandemic and over the long-term, retailers who have base-price focused strategies have superior growth rates to retailers who focus on delivering personalized promotions/rewards**. However, personalization-led retailers who work to minimize base-price gaps to base-price leaders can triple their long-term growth rates, compared to personalization-led retailers who don't make minimizing the base price gap a perennial strategic directive.
- **High-value retailers – those retailers who excel at delivering superior shopper perception in price and quality – have shared one thing most in common:** a clear focus on prioritizing their private brand offering. This group of high-value retailers have the strongest long-term and short-term growth rates.
- **For traditional, regional grocers, there is a strategy** that continues to be effective at fighting 1st Quartile, non-traditional grocers: *superior* assortment relevance, *great ability* to manage out-of-stocks and price logic at the shelf, and having base prices that *aren't insulting*, all of which unlock the power of data-led personalization through promotions and rewards. The biggest opportunity for them to improve and close a wide gap to the 1st Quartile retailers is in Digital.
- **The pandemic has increased the likelihood of success for an alternative strategy for traditional, regional grocers.** The alternative strategy would offer a premium assortment, with a speedy shopping experience and an eCommerce experience that rivals some of the best retailers. For the first time in the five years of our study, several retailers with this strategy now occupy the 2nd Quartile, up from the 3rd Quartile. The biggest opportunity for them to improve and close a wide gap to the 1st Quartile is in base price.

The unexpected twists and turns in Covid have made prognostication challenging to say the least. Covid is the catalyst to what is happening and, as the cases go up and down, this impacts consumer behavior, which in turn impacts the economy, retail sales, and grocery sales. We have seen shoppers buying online more, making fewer trips, buying bigger baskets, and cross shopping less. This has translated to the time saving driver becoming more important while price and quality — although still important — are much weaker versus pre-Covid.

Unfortunately, the last couple of years suggests that variants, such as Delta and Omicron, will likely be popping up until the world is immunized or until we hit herd immunity. So 2022 will likely look more like the last two years than 2019. For 2022/2023 planning, the outlook will probably be similar to 2021, but we will continue to see a slow adjustment toward many pre-Covid trends (cross-shop, basket size, visits, price sensitivity, promotions, etc). The speed and completeness of the transition will depend on many things, so having one's pulse on customer's evolving needs, and an ability to react quickly to these changes, will be essential for success.

II. Deep Context: The Dawn of the Age of Reinvention

For an American citizenry with restlessness and rebellion wired into its DNA, the fresh challenges brought about by a sudden, new way of life were bound for reinvention. Looking back in history, we might call this the Great Reinvention, as massive as the Great Depression, but positive in its course[1]. Another way to look at it is that the chaos that accompanied the pandemic — disruptions to the supply chain, labor shortages, and now inflation — have given businesses an opportunity to rise by embracing the challenges that altered reality for retailers.

The Great Reinvention is not just about business. People are rethinking how their profession and employer reflect their values, resulting in widespread job turnover and career path changes in the U.S. Consumers are reinventing how they shop, due to the persistent concern of Covid and the shifting, varied mandates from governments and businesses.

The Challenges for Grocers

In the face of these changing consumer values and behaviors, companies are reinventing how they do business. The grocery industry, perhaps more than any other, has had to answer this call for reinvention, due to both record consumer demand and sea changes on the supply side.

In 2020, while many industries and the broader economy struggled, grocery industry sales rose 11%, almost quadrupling the typical annual growth rate of ~3%, on the back of restaurant closures, consumer stockpiling and more meals eaten at home. In 2021, despite restaurants opening up and food-away-from home sales[4] returning to pre-Covid levels for the first time during the pandemic, the grocery industry, at the time of this report's publication, was still projected to grow at a typical 3% rate *following 11% growth from the year before*. This has all happened as vaccination rates steadily climbed throughout 2021, exceeding 200 million people, or over 80% of the teen and adult population[5], by the start of winter.

Grocers have other things to think about, too, most notably consumer behaviors. More than in any other industry, consumers say that their behaviors in grocery have changed permanently[6]. The most common behavior changes seen during Covid include spending less time in stores, visiting fewer stores less often and stocking up, eating at home more, and eating healthier. While meeting these changing behaviors is a large enough challenge for retailers, there are likely more changes to come. The good news is that nearly 70% of consumers felt that their new behaviors had stabilized by the end of 2021. And, in the fall of 2021, for the first time since the start of the pandemic, fear of catching an illness while grocery shopping was a less common concern than the familiar, pre-pandemic leading concern: high grocery prices. Consumer stories of the pandemic introducing new grocery shopping values while reinforcing old ones abound.

[1] A recent report from McKinsey supports this view NEED CITATION.

[2] The Atlantic, October 2021. https://www.theatlantic.com/ideas/archive/2021/10/great-resignation-accelerating/620382/.

[3, 6, 7, 8] FMI Report. U.S. Grocery Shopper Trends Tracker 2021. August 2021.

[4, 10] Bureau of Labor Statistics

[5] CDC Covid Data Tracker. https://covid.cdc.gov/covid-data-tracker/#datatracker-home

[6] Burke, Inc. Omnibus Tracker. June 2021

Then there's the supply chain. While surging demand, shifting behaviors, and uncertainty over future behaviors have challenged many grocers, supply side pressures have squeezed them especially hard. Empty grocery shelves and record inflation are the clearest signs that moving goods from farms and factories to grocery store shelves has been a huge challenge.

> "
> The price of meat has gone up quite a bit so we don't get as much as we used to. And lately going to the grocery store at Walmart a lot of the food like canned goods, water and Gatorade just ain't and stock they can't keep up with the demand so it's making it hard to get stuff like that.
>
> - Rural shopper, age 35 – 44

> "
> Some weeks when I shop the prices are beyond what I can afford, so I wait for a sale. Like with meat, we only eat organic, so I wait for a sale and then buy 2 extra packages for the freezer. Since we are at home more, I am making more meals with leftovers that can be frozen.
>
> - Rural shopper, age 45 – 54

> "
> The stores have trouble getting products INTO their stores. Some due to low production/supply and some due to transportation. So I have had to buy what I can when I can. Sometimes I have had to change brands, sometimes I have had to pay more than I use to.
>
> - Urban shopper, age 65+

> "
> I think twice before I buy anything nowadays. How most fresh products are displayed matters more. If it looks like too many hands have touched it. I won't buy it. I check how things are packaged more. My whole life and way of life has changed. I eat a lot of veggies.
>
> - Suburban shopper, age 25 – 34

> "
> The cost of groceries was high enough before Covid-19, now they're higher; I believe that some companies and markets (meat industry) are just taking advantage of the situation to increase prices and profits. And we have to be more concerned with personal and food safety now.
>
> - Urban shopper, age 45 – 54

While getting goods on shelves affordably is at least a familiar challenge for grocers, retailers have been forced to ramp up digital capabilities at a pace for which few were prepared. eCommerce continues to be the safe and occasionally more convenient alternative to in-store trips for many Customers. Around half of American shoppers buy online at least sometimes and eCommerce share of total grocery sales remained around 10% in 2021, over double pre-pandemic levels and similar to 2020 levels. This sudden, steep scaling-up of digital capabilities for retailers meant that shoppers faced uneven experiences not only in-store, but also through eCommerce. But this poses another challenge for retailers: managing omnichannel well in a super competitive environment.

> “
> When I order food online, if the item is available when I am ordering, I expect to get that item when I pick up, but that’s not always the case. The other obstacle is all of the employees in the stores with their giant cart for shopping online orders. They tend to get in the way and take up a lot of room in the aisles.
>
> - Urban shopper, age 65+

Additionally, the impulse to reinvent along with a shortage in workers willing to work in stores during Covid, resulted in a nearly 50% increase in turnover in grocery in 2021[7]. At the same time, grocery wages increased ~7%, 7x higher than the long-run average of 1%. This was led by higher profile increases to minimum hourly wages (Walmart to $15 and Costco to $17)[8]. Higher turnover costs in the near-term and higher labor costs in the long-term make attracting and keeping the right talent a top concern for grocery executives. Not only are labor costs the biggest expense for grocery retailers, but employees — especially front-line employees, shape the consumer experience.

This persistent, record boom in consumer demand for grocery retail and the unprecedented, deep-seated supply side strains on retailer’s physical and digital assets, make the question of which long-term investment decisions challenging. This report provides some important clues to this question. It reveals which grocery retailers have best responded to this nascent period of Great Reinvention, by examining which retailers are currently best positioned to win with Customers, in the near and long term, and *why*.

But back to our note at the start, while the pandemic brought chaos on many fronts, it has given the industry a time to pause and think about how they are faring with their Customers, the ultimate measure of the health of any business. What do my Customers want? What matters most to them? What can I do to earn and retain their business? The age of the Great Reinvention is the age of the Customer, but that’s a constant that’s true forever. What’s new is the market landscape in its many dimensions. What’s also new is prolific Customer data, analytic techniques, and tools to help retailers understand their Customers in new and actionable ways.

[7]Grocery Dive. September 2021. https://www.grocerydive.com/news/fmi-80-of-food-retailers-say-hiring-issues-are-hurting-business/606695/

[8]Business Insider. August 2021. https://www.businessinsider.com/restaurant-grocery-store-workers-now-earn-above-15-on-average-2021-8

III. How We Measure Retailer Preference: Our Methodology for the Grocery RPI

Each year since 2017, our RPI score established which retailer value propositions are best positioned to win with Customers. Our rankings are the result of a statistical model that predicts how retailer execution on various Customer needs – Preference Drivers – impact both lasting emotional bonds formed with Customers, as well as near-term and long-term financial success.

RPI Modeling Approach

- Price
- Quality
- Digital
- Operations
- Convenience
- Discounts, Rewards & Info
- Speed

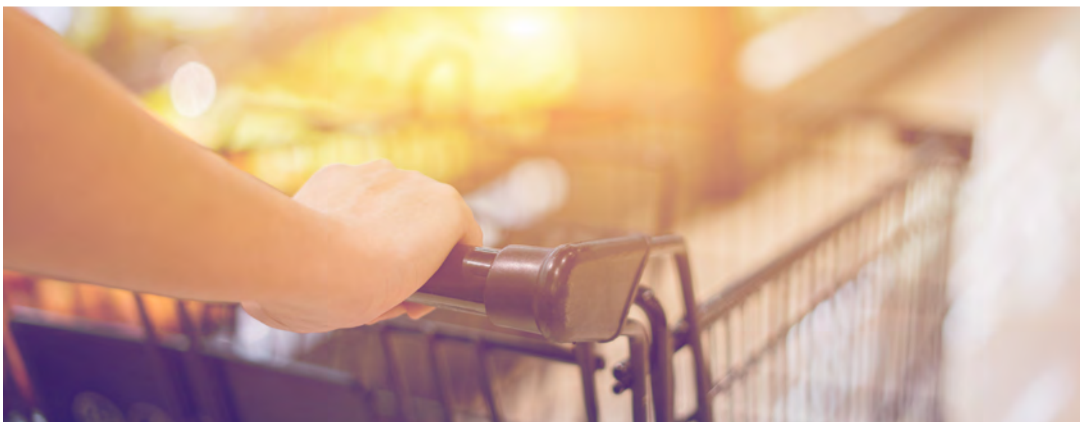
- Likelihood to recommend
- Trust
- Would be sad if store closed

Longer-term metrics
- Total grocery market share
- Grocery Sales Growth - 5yr CAGR
- Sales square foot

Shorter-term metrics
- YoY sales growth

Each Preference Driver score and Emotional Connection score[9] is measured with data gathered from a customized, online survey of ~10,000 U.S. households per year. Financial Performance is gathered from publicly available financial information from Edge by Ascential. Retailers are scored on each Preference Driver, based on Customer perceptions, which are then associated mathematically to a retailer's financial performance and Emotional Connection. Using this blended approach of perception and performance was done to more accurately represent retailer preference.

[9] These scores are the two things that retailers can manage, and they lead to better short-term financial performance. These scores are the most actionable.



RPI Pillar	Primary Drivers in Pillar
Price	Lower prices than other stores, fair prices on organic/natural items, private brand
Digital	Easy ways to shop online or with an app, usefulness of information provided
Quality (Assortment + Store Experience)	Product freshness and quality, private brand, prepared foods, natural and organic, product variety. Store experience includes customer service, look and feel
Operations	Out of stocks, price consistency, right products, clean stores
Convenience	Right product variety, convenient locations and ability to do all shopping at one store
Speed	Easy to get in and out quickly, speedy checkout
Discounts, Rewards, and Information	Relevancy and ease of redeeming discounts/coupons, rewards for shopping, provides relevant information

By understanding how different Preference Drivers propel overall market share, we understand what it takes for a retailer to scale their offering up to different regions and to a wider variety of consumers, which takes time. Modeling against five year compounded annual sales growth rate (CAGR) also ensures we understand what it takes for a retailer to maintain growth over time. Sales per square foot also helps to gauge how efficient and productive each retailer is with their given selling space. Knowing what it takes to secure a strong Emotional Connection with consumers also sheds light on what it takes to get consumers to keep coming back to retailers long term, despite events that might steer them away – like job losses or changes, illness or anxiety over the pandemic. Finally, knowing the relative competitive positioning of the Preference Drivers in the eyes of Customers gives us an understanding of competitive strengths and weaknesses.

Including YoY sales growth in our model ensures we incorporate an understanding of what is driving momentum in the short-term. This was a new addition to our modeling in 2020, when a normally steady industry suddenly had to deal with big, short-term changes in underlying industry dynamics. In 2020, we saw a sharp divergence in the importance of what was driving short-term financial changes and what was driving longer-term financials and emotional bonds, and we want to make sure we consider the interplay between the long and short-term. Additionally, with the industry still in the pandemic era —the emergence from which will likely shape the industry in unexpected ways — this momentum metric component will now be an RPI model mainstay.

The main differentiator between our approach to ranking retailers is that our rankings result from a combination of financial success, emotional bond, and performance on preference drivers. Other lists typically produce simple ranks of retailers on just one of these dimensions. Using a single dimension leads to conflicting accounts of which retailer is "best," and those lists often do not associate what retailers do (captured in the preference drivers) with resulting emotional bond and financial performance, and do not accurately capture what drives customer preference.

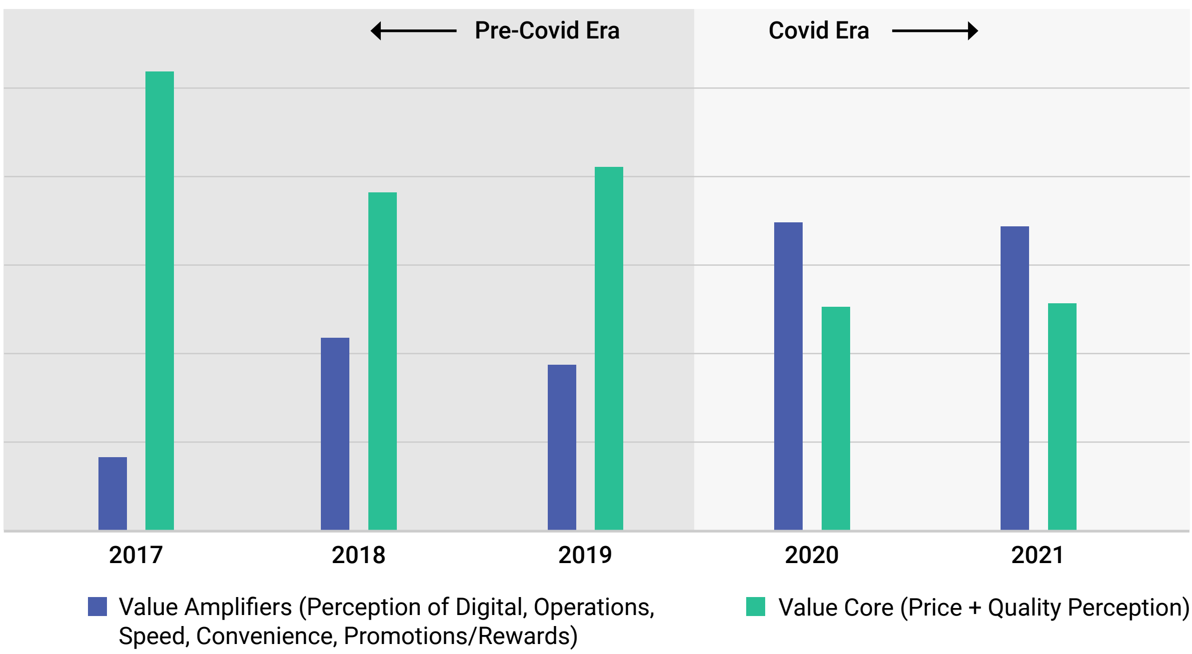
IV. What Drives A Retailer's Financial Success and Emotional Bonds with Customers?

The idea that the past two years represent a time of Great Reinvention for grocery is reflected in our RPI model. Before Covid, what drove which retailers to win or lose could be explained mostly by Customer perception of Price and Quality, the combination of which we refer to as the Value Core. The Value Core had been 2x to 3x more powerful than all other Drivers combined in influencing positive financial results and emotional connection. In other words, if a retailer could correctly achieve the right balance of Price and Quality for its Customers, it had accomplished over half the battle in achieving competitive advantage. The rest of the Preference Drivers were thought of as Value Amplifiers, meaning they would serve to amplify a competitive advantage a retailer achieved with a superior Price-Quality equation.

However, a big competitive advantage in one or more Value Amplifiers would not secure financial results if the Price-Quality equation wasn't compelling to Customers. Even a retailer with the best eCommerce platform in the country and the speediest to shop in-store experience would lose market share if their prices were too high given the quality of their products.

Covid disrupted this conventional wisdom. Now, the Value Core no longer drives the majority of a retailer's financial success:

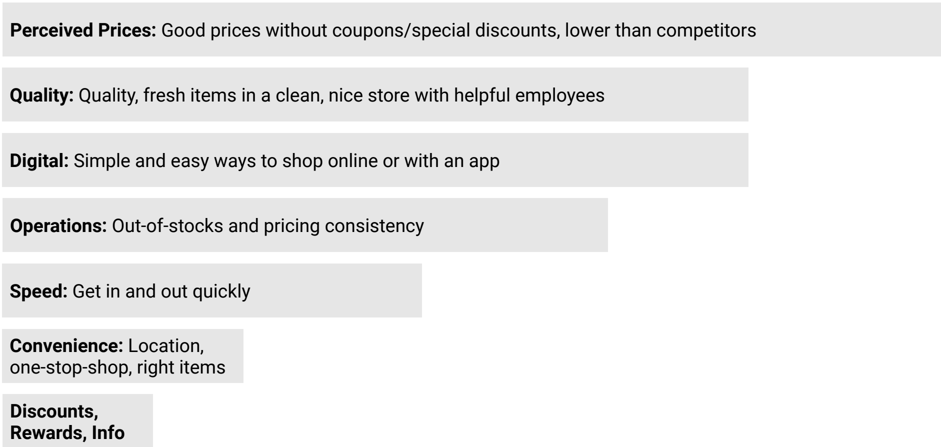
Impact of preference drivers on retailer success



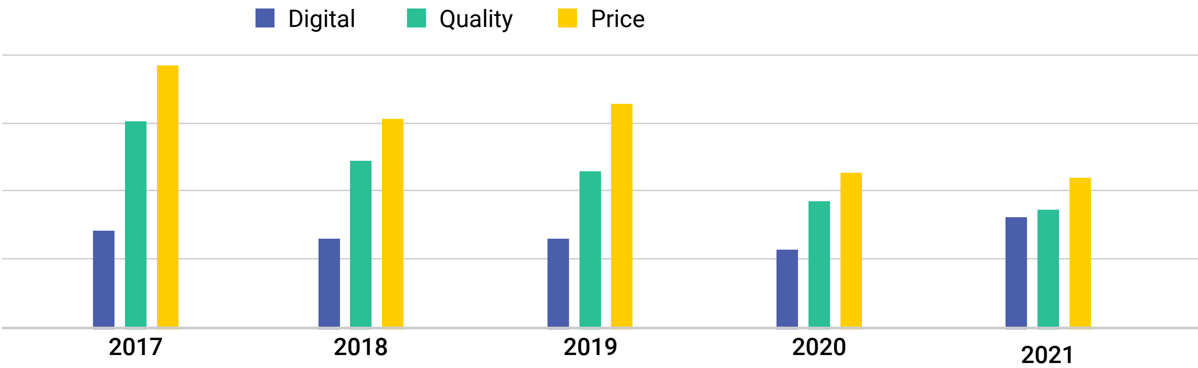
The emergence of Digital

Within the entire value proposition, Digital has been a steady third in importance among all Preference Pillars, across all years, and Price has always edged out Quality for the top spot. For the first year ever, in 2021, Digital and Quality sat neck and neck. This change in our model reflects the growing influence the eCommerce offering has in Customer retailer choice and behavior:

Importance of preference drivers for financial results and emotional bonds



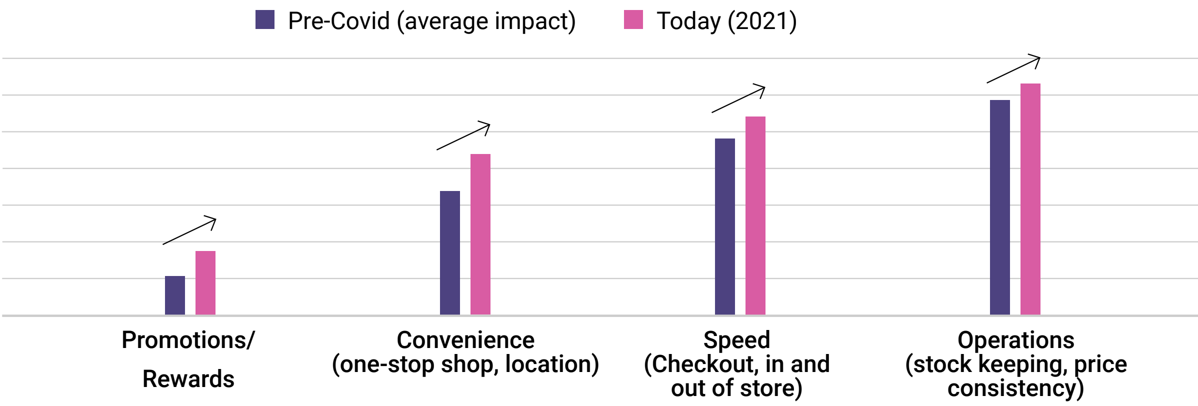
Three most important customer preference drivers in explaining differences in retailer results



We will take a deeper dive into Digital in section VII of this report.

In addition to Digital, other Value Amplifiers experienced growth in influence in the pandemic era, to varying degrees:

Impact of value amplifiers on retailer success



[10]IRI. Grocery Retailer Case study. March 2021.

This change is significant because, during the past two years, it opened up more options for retailers to win in the marketplace. Retailers could overcome weaknesses in their Price-Quality equation and gain market share and superior growth with strong performance in one or more Amplifiers. This is because Customer needs and behaviors shifted with new motivations, due to Covid.

One such motivation was the desire to remain safe from Covid, which meant that a retailer's ability to deliver one or more of the following became more important than ever: a speedy in and out experience so shoppers wouldn't have to linger; the most relevant assortment and in-stock ability so Customers could stock-up, visit fewer stores and encounter fewer people; or a serviceable eCommerce experience so shoppers could avoid the store altogether.

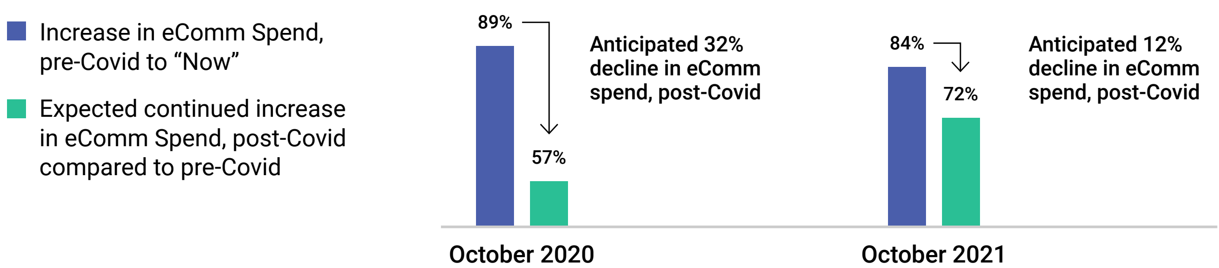
> "When people are in a constant panic about getting sick or touching too many things at your local store, then it's a very unenjoyable trip to the store and you will end up getting the necessities and getting the hell out of there as quick as possible.
>
> - Suburban shopper, age 35-44

Rising prices also meant that a retailer's ability to maintain competitive base Prices continued to matter, but giving Customers additional ways to save through compelling Promotions/ Rewards increased in importance compared to the pre-Covid era, because fewer retailers were actively promoting products.

There are signs that this Great Reinvention of the Value Core-Value Amplifiers relationship has staying power. The quick ramp up of eCommerce infrastructure for the pandemic leaves retailers with a huge incentive to seek a ROI and continue to push that channel to the market. Retailers know firsthand that if they can turn an in-store shopper into a regular omnichannel shopper, they can grow that shopper's average monthly spend with the retailer by ~20%[10]. Additionally, a digitally enabled store and better integrated eCommerce capabilities could potentially improve the employee experience and make their jobs more efficient and easier, which would help retailers in the battle for scarce, revolving talent.

On the Customer end, we learned last year that shoppers estimated that they doubled their share of grocery dollars spent online. However, after the pandemic, they said they would send 32% of that gain back to their brick-and-mortar shopping. Now, when asked that same question, shoppers say they will only send 12% of that gain back to brick and mortar.

Customer estimated stickiness of new eCommerce behaviors

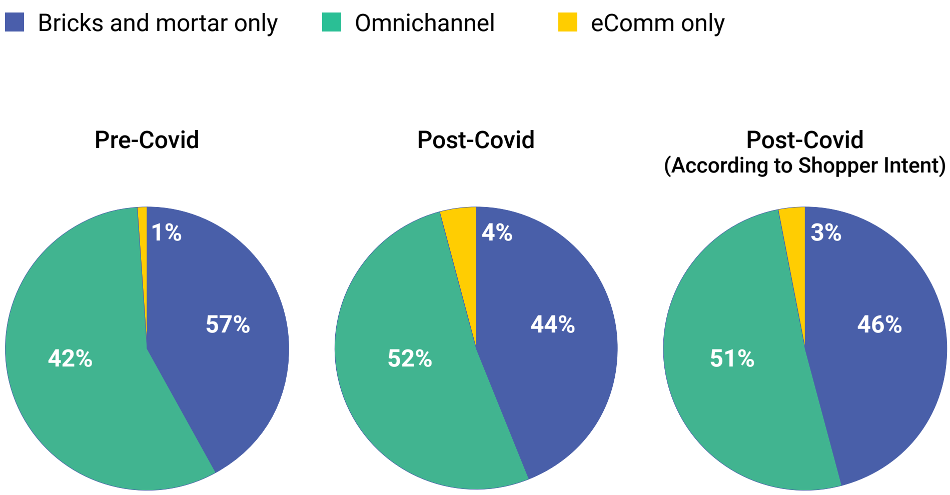


It appears that, for eCommerce at least, when most shoppers said their new grocery shopping behaviors have settled for the foreseeable future, they meant it.

> "
> Most of the obstacles I previously experienced have been eliminated by having my groceries delivered, since Covid I've decided that the extra cost is worth it.
>
> - Urban shopper, age 35-44

Despite Digital's growing influence in retailer success, there are signs that eCommerce as a *channel for sales* may plateau against a divided Customer population in the U.S. In spite of Covid providing what is perhaps the strongest motivation for adopting eCommerce grocery shoppers will ever encounter, about 44% of the U.S. population still does not buy groceries online. Given that this group plans to stick only to brick and mortar post-Covid, it may be more accurate to call them eComm-never-adopters rather than late-adopters.

Grocery shopper populations by channel type



This finding doesn't mean that Digital capabilities do not impact brick-and-mortar shoppers, who could still use websites or apps to help make their overall shopping journey easier. What is evident is that the growth in the omnichannel population pre-Covid to today means that more Customers than ever are in control of their shopping journey, choosing the right mix of channel for the right shopping mission. This calls for a carefully crafted strategy, involving omnichannel digital capabilities that support the entire shopping experience.

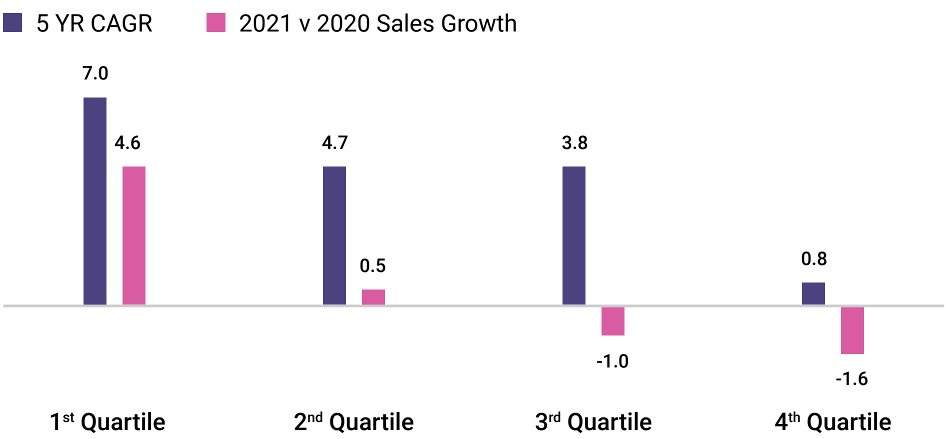
Ultimately though, determining which Preference Drivers a retailer should prioritize is not a one-size-fits all approach. For instance, Trader Joe's, who ranks near the top of the RPI every year, does so despite very little omnichannel capability and a ranking near dead last in our Digital pillar.

Determining the right strategy comes down to an understanding of the needs of a retailer's Customers, the retailer's particular strengths and weaknesses in the eyes of those Customers, and the unique abilities that retailer has to deliver on those needs.

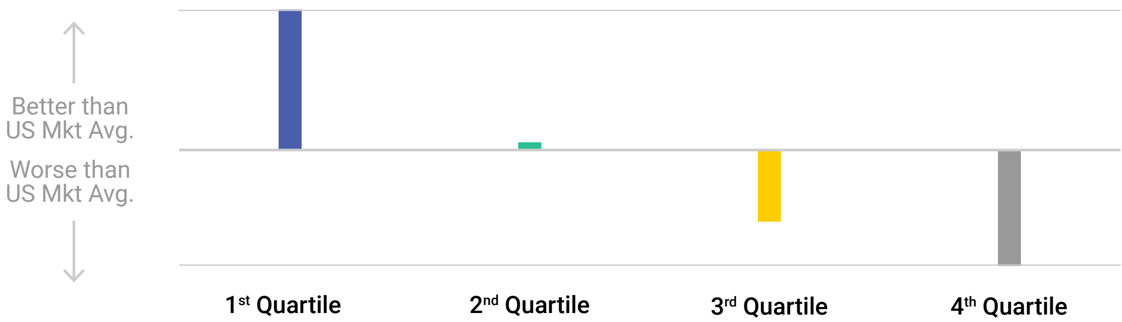
Performance versus Emotional Connection

Our RPI rankings continue to prove that the retailers who hit on this right strategy reap the financial rewards and emotional connection with shoppers. This relationship is especially clear when it comes to growth. Retailers that rank in higher RPI Quartiles have stronger long-term growth rates and have shown a better ability to maintain momentum coming off the peak of the Covid grocery boom of 2020:

US grocery sales growth rates (%) by RPI quartiles



Emotional connection by RPI quartiles



A look at which retailers have a winning formula with their Preference Drivers gives clues as to which strategies have worked to maintain long-term growth, short-term momentum and have best-positioned retailers to win with Customers for the foreseeable future.

V. Who Are the Winners Overall … And What Strategies Do They Use?

Fifth Annual Retailer Preference Index, Overall Ranking: The 1st Quartile (Ranks 1 – 15)

Based on a retailer's RPI score, which looks at Customer perception on the Preference Drivers and weighs that against how much Preference Drivers matter in driving financials and emotional bonds with Customers, the retailers who are best positioned to win with Customers in 2022 and beyond are:

	1st Quartile
1	Amazon
2	H-E-B
3	Market Basket
4	Wegmans
5	Amazon Fresh
6	Aldi
7	Trader Joe's
8	Sam's Club
9	Costco
10	Walmart Neighborhood Market
11	Target
12	Publix
13	Walmart
14	BJ's Wholesale
15	Fareway

Amazon, for the second year in a row, is the retailer with the strongest Customer value proposition, a spot it took only for the first time last year. Amazon continues to benefit from the growing importance of Digital and Speed, which already happen to have been its biggest competitive advantages before Covid.

H-E-B maintained its spot at number two, continuing to display its strategic superiority over the competition by holding its ground on its traditionally strong balance of great Price perception and great Quality perception, driven by its best-in-class private brand, while also making some of its biggest improvements during Covid in Digital.

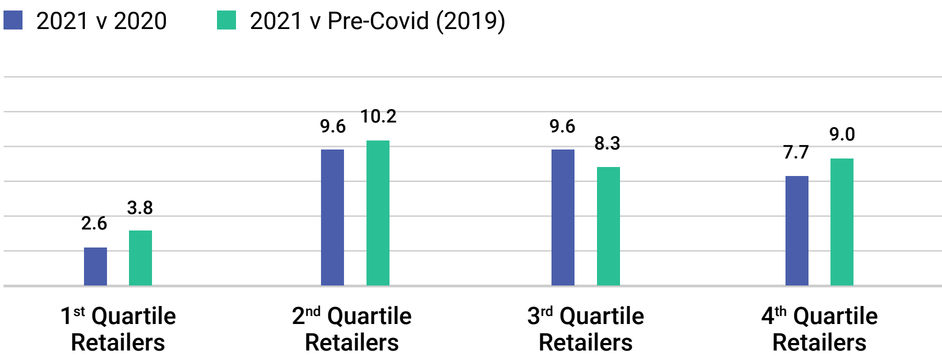
Market Basket stole the number three position from Trader Joe's, with its continued excellence on Price and Operations, while simultaneously making its biggest Covid-era improvements in Speed. Market Basket is also like Trader Joe's in that they don't have a Digital offering. They have built value propositions based on what their specific Customers want.

BJ's Wholesale, over the past two years, has moved steadily from the back of the 2nd Quartile to make its debut as the only newcomer to the 1st Quartile.

Deep Dive

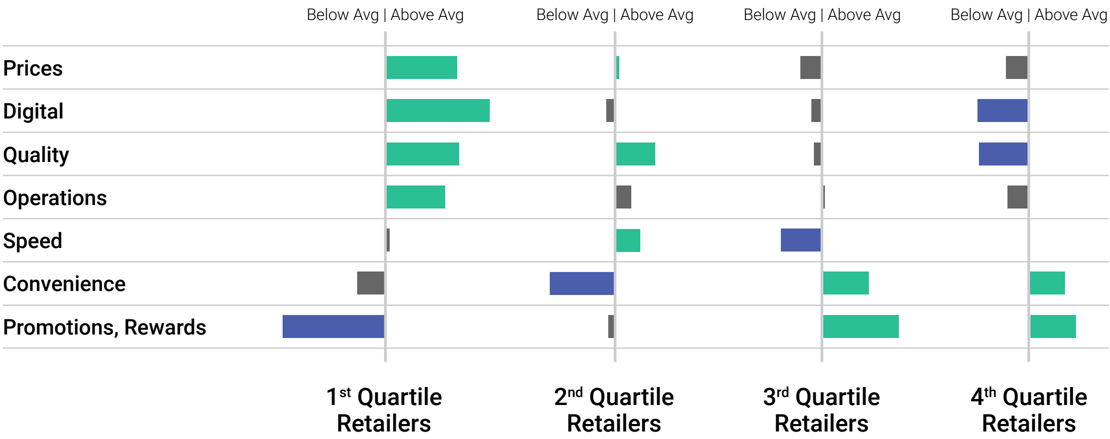
The 1st Quartile is relatively stable each year, reflecting these retailers' solid competitive advantage. The average change in rank for a 1st Quartile retailer this year compared to last year is only 2 or 3 spots, whereas each other Quartile sees shifts of, on average, 8 or 9 spots:

Average change in ranking, number of spots



The formula the *average* 1st Quartile retailer follows to stay ahead of the chase pack is clear: have a clear competitive advantage in the Value Core, supplemented by out performance in Digital capabilities and well-run Operations:

Fifth Annual RPI: Preference Pillar performance by Quartile



The ability of the 1st Quartile to hold off the chase pack without letting other 1st Quartile retailers outmaneuver them boils down to their superior ability to follow three basic tenets of strategy

Of course, the average formula for winning in the 1st Quartile represents just that, the average. The ability of the 1st Quartile to hold off the chase pack without letting other 1st Quartile retailers outmaneuver them boils down to their superior ability to follow three basic tenets of strategy: have sharper differentiation than the competition on the most Customer relevant needs, be willing to make trade-offs in order to achieve that differentiation, and be nimble enough to respond swiftly and effectively to shifts in Customer needs.

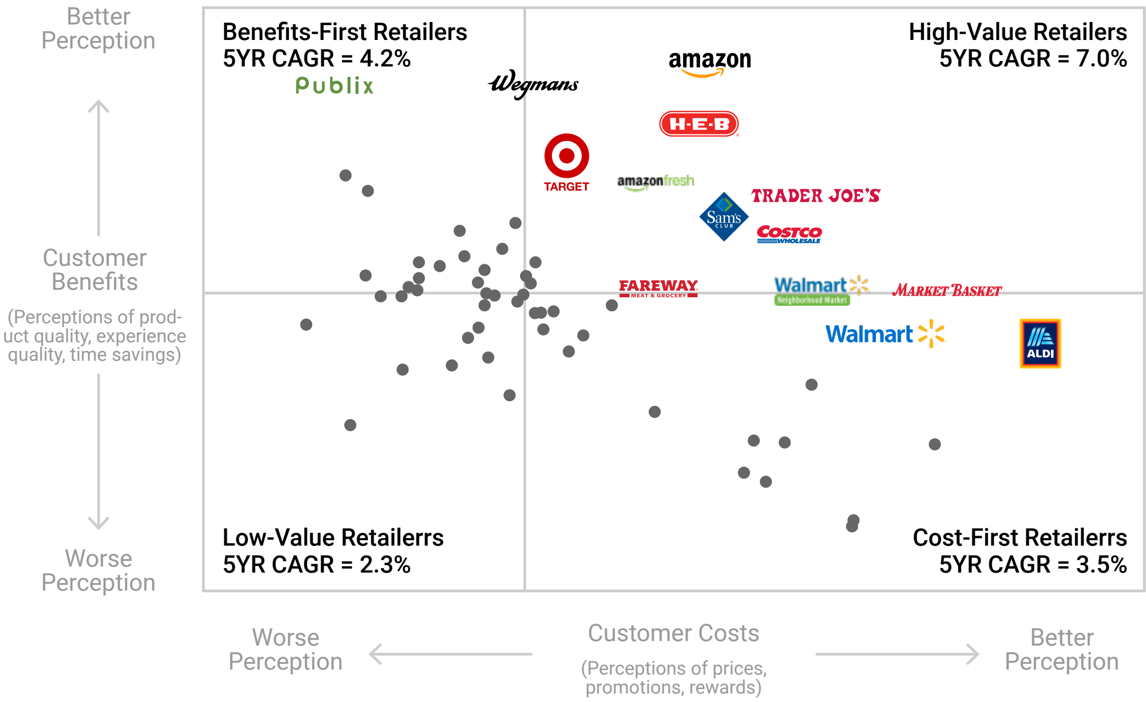
The Value Equation Map

To the point of sharper differentiation, 1st Quartile retailers clearly separate themselves from 2nd through 4th Quartile retailers because they create more value based on how they configure their value equation. They also create space in their competitive positions from other 1st Quartile retailers. 1st Quartile retailer positions are indicated by their logos on this "Value Equation Map" grocery landscape positioning map, while 2nd – 4th Quartile retailers are represented by dots:

To the point of trade-offs, the Value Equation Map makes it clear that certain 1st Quartile retailers have chosen a Benefits-First strategy (Publix and Wegmans), allowing key competitors to clearly beat them on prices in order to invest in superior benefits for their Customers. They may be able to justify their price premium with superior products and store/online experience. Other retailers have chosen a Cost-First strategy (Aldi, Walmart, and Market Basket) where they cede ground on certain benefits in order to invest in better prices.

Customer Value Map

This is a value equation map. The banners that are positioned on the outer periphery are generating more value than those in the bottom left quadrant. Value creation drives customer preference, which translates into higher financial performance and emotional connection.



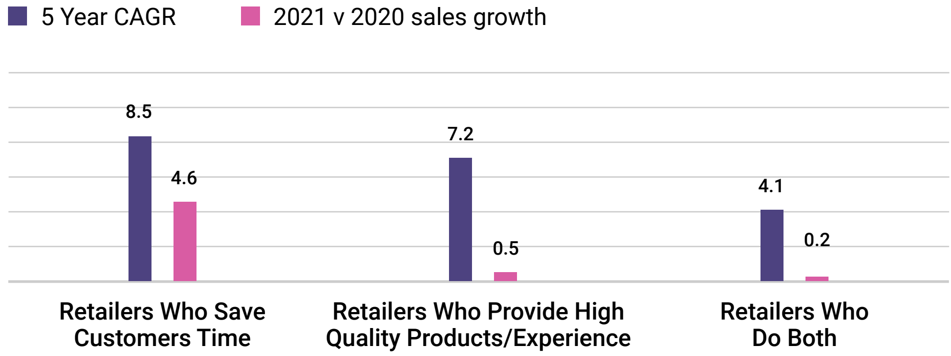
Freedom of Choice for Top Grocers

Even within Customer Benefits and Costs, 1st Quartile retailers are strategically choosing where to focus. Do they choose to focus on delivering the benefit of time savings or the benefit of the highest quality products and Customer experience? Do they choose to focus on delivering great base prices to consistently communicate savings or do they focus on delivering personalized promotions and rewards to deliver excitement and the sense that people are finding special deals?

Which direction they choose has implications for growth. A look at recent trends highlights which strategies are most relevant.

When looking at retailers who are solidly in the two top-most quadrants (above average on Customer Benefits perception) on the Value Equation Map, retailers who deliver time savings grow faster than those that focus on delivering a high-quality experience and assortment.

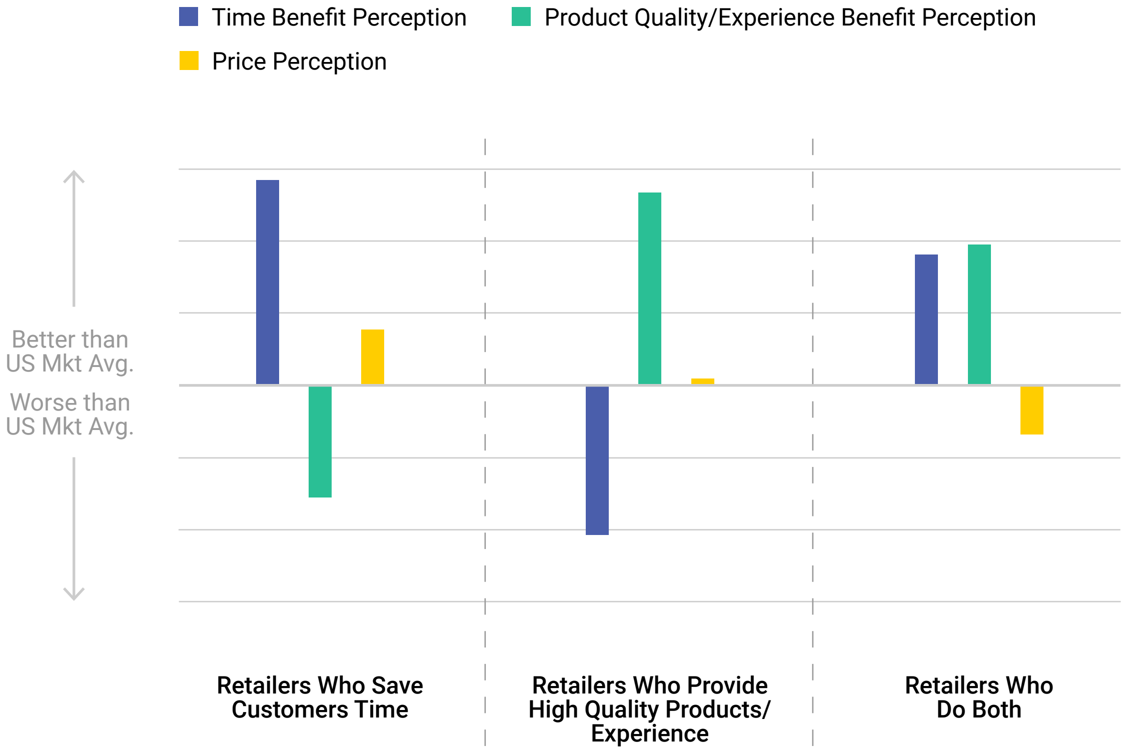
US Grocery Sales Growth Rates (%) by Type of Customer Benefit Prioritized



However, if they strive to deliver both, this is typically a path towards slower growth than just focusing on one or the other. This is because retailers that strive to do both have a more watered-down advantage than retailers who pick one benefit where they can excel. Additionally, they have worse Price perception, since it takes more resources for the business to try to hedge and drive two advantages, which in turn leads to higher consumer prices to maintain.

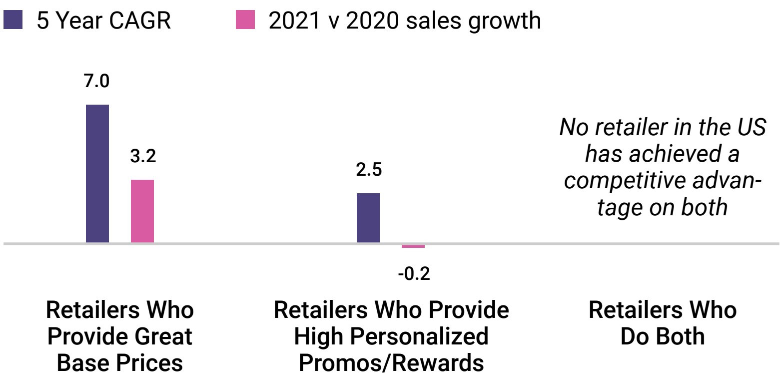
So, not only are benefits watered down, but the value proposition is weaker on the Customer cost side of the equation as well. This underscores the power of making trade-offs:

Customer Perception of Benefit Type by Retailer Type



When looking at the cost side of the Customer value proposition, retailers who have a competitive advantage in base price clearly outperform retailers who have a competitive advantage in personalized promotions and rewards. Also, since no retailer has been able to achieve competitive advantage in both, this is another clear case of making necessary trade-offs.

US Grocery Sales Growth Rates (%) by Type of Customer Cost Prioritized



However, this doesn't mean that personalization-led grocery stores should throw in the towel against Walmart and Aldi on base prices. On the contrary, battling back on base price is key to unlocking their maximum growth potential. If they can at least minimize gaps on base price to the point where there aren't huge disadvantages, they can almost triple their long-term growth and have better year-over-year momentum:

US Grocery Sales Growth Rates (%) by Types of Retailers Who Provide Personalized Promos/Rewards

The good news for these retailers is that "minimizing the base price gap" doesn't mean closing it completely with Walmart or Aldi. In fact, personalization-led retailers can have a clear disadvantage on base price and achieve stronger growth. Carefully tracking and working hard to minimize that gap is the key.

Costs versus Benefits

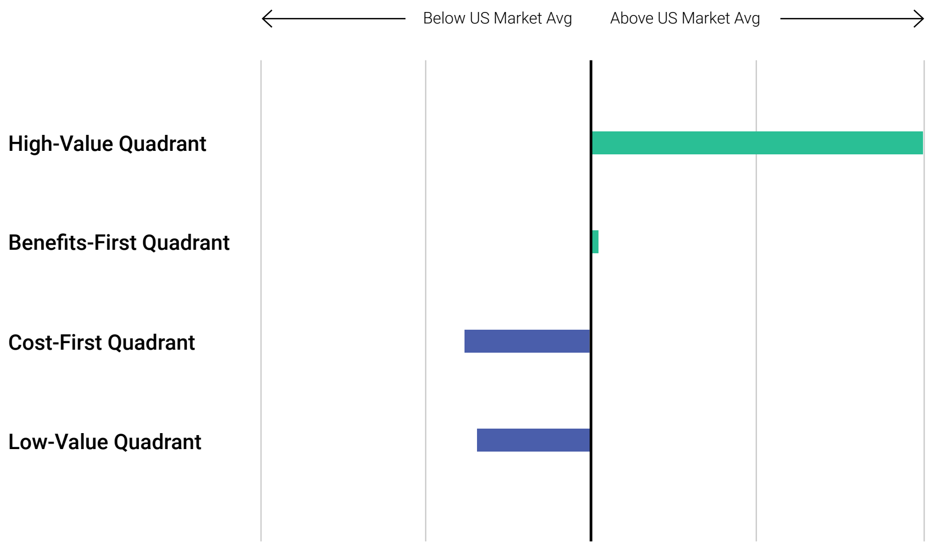
1st Quartile retailers – have competitive advantages on both the Customer Benefits and Customer Costs side of the equation. They tend to make their trade-offs by focusing on making the value proposition highly compelling on fewer grocery SKUs or grocery categories (Trader Joe's, Costco, Sam's Club, BJ's Wholesale) than the competition, many of whom try to sell a broader range. Also, 7 out of 8 of the retailers who are most clearly in the High-Value quadrant can be classified in the "retailers who provide great base prices bucket", while 1 (H-E-B) is a personalization-led retailer who has minimized the base price gap.

Private brands

High-Value retailers also have another thing in common that retailers with other strategies don't: a best-in-class private brand offering that is clearly differentiated from other private brand offerings. The four retailers with the strongest private brand perceptions (Trader Joe's, Costco, Amazon Fresh and H-E-B) are all High-Value retailers, with an additional four High-Value retailers (Sam's Club, Target, Walmart Neighborhood, and Amazon) scoring private brand scores that are higher than 75% of retailers in the U.S.

These High-Value retailers set the tone for what best-in-class private brand looks like, whereas the average retailer in other quadrants scores lower on private brand.

Private brand perceptions (Value Equation Quadrant Avg.)

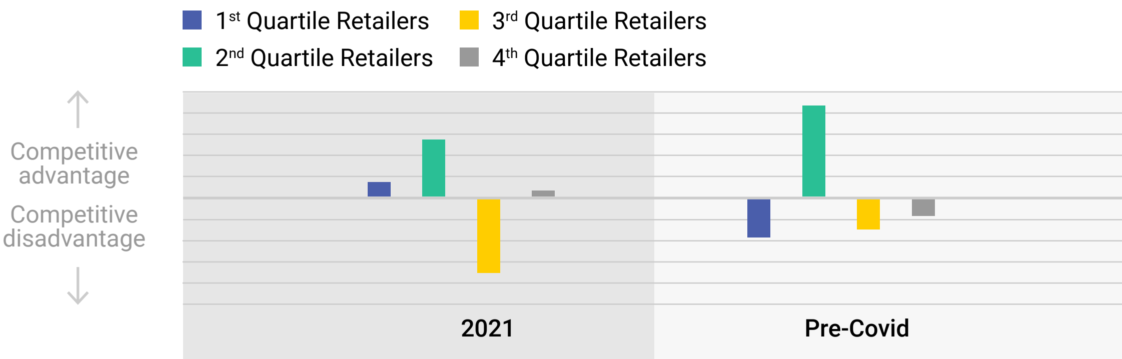


Digital is king in driving momentum

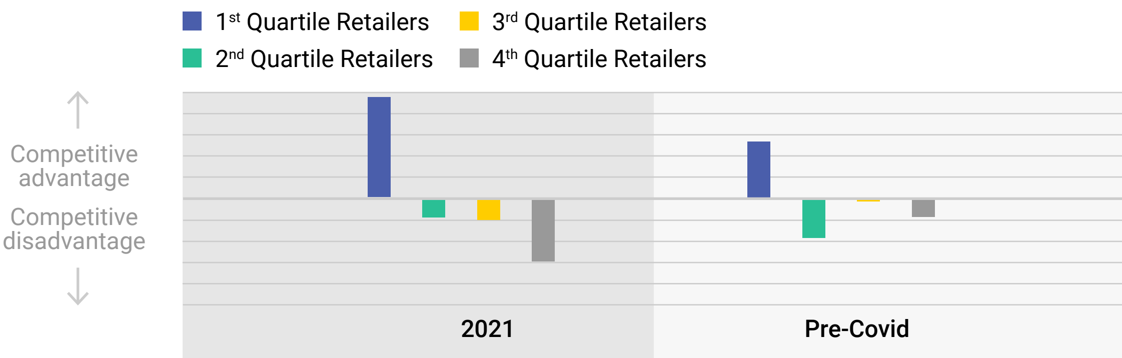
In addition to trade-offs and differentiation, all 1st Quartile retailers have shown during the pandemic-era that they are better than the chase pack at nimbly responding to Customer trends. This year, Digital was king in driving short-term momentum from 2020 to 2021, just sneaking ahead of Speed at the top spot. Digital, for most banners, is an engine of reinvention using Customer sentiment data. It is part of what we call the Customer-first approach to growth. We'll take up that topic in section VII.

↑↓ 2021 v 2020 change in importance	What matters for 2021 market share momentum	What matters for 2020 market share momentum
TOP TIER Most Important	Digital ↑	Speed
SECOND TIER Importance	Prices ↑ Speed ↓	Digital Promos/Rewards
THIRD TIER Importance	Operations	Operations Price
FOURTH TIER Least Important	Quality Convenience Promos/ Rewards ↓	Quality Convenience

Speed: Customer perception gaps compared to the rest of the market, 2021 to pre-Covid



Digital: Customer perception gaps compared to the rest of the market, 2021 to pre-Covid



1st Quartile retailer strategic focuses (based on Customer perception)

✓ Biggest competitive advantages ✗ Biggest competitive disadvantages

	Prices	Digital	Quality	Operations	Speed	Convenience	Promo/ Rewards	Biggest Improvements during Covid
amazon		✓	✗		✓	✗		Quality
H-E-B	✓		✓	✓	✗			Speed, Digital, Quality
Market Basket	✓	✗		✓	✗			Speed, Quality
Wegmans			✓	✓			✗	Speed
amazonfresh		✓		✗	✓			-
ALDI	✓	✗	✗		✓			Digital
TRADER JOE'S		✗	✓		✓	✗		-
Sam's Club	✓	✓					✗	Quality, Digital
Costco Wholesale	✓	✓	✓		✗	✗		Speed, Digital
Walmart Neighborhood Market		✓				✓	✗	-
Target	✓	✓	✗		✓			Quality
Publix	✗		✓	✓		✓		-
Walmart	✓	✓	✗		✗	✓		Operations, Quality

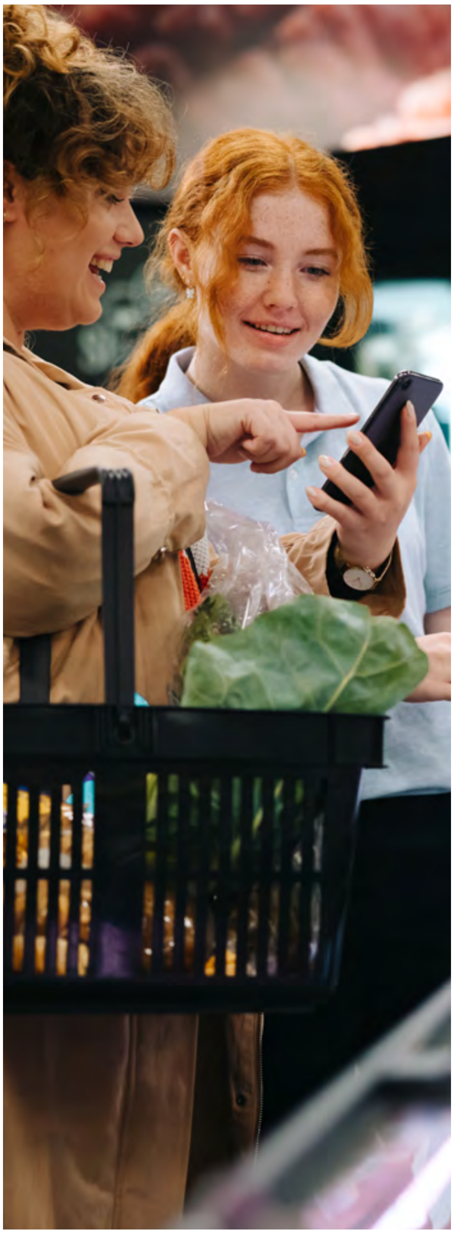
VI. Who Are the Leaders of the Chase Pack … And What Strategies Do They Use?

2022 Retailer Preference Index, Overall Ranking: The Second Quartile (Ranks 16 – 30)

2nd Quartile grocers have opportunities to also rise in the rankings. In fact, there has been movement in the rankings from the lower Quartiles entering the chase like a peloton.

The leaders of the pack that is chasing the 1st Quartile are:

2nd Quartile	
16	Fresh Thyme
17	Giant Company (Ahold)
18	Lidl
19	The Fresh Market
20	Brookshire's
21	Winco
22	ShopRite
23	Sprouts
24	Ralphs (Kroger Co.)
25	Harris Teeter (Kroger Co.)
26	King Soopers (Kroger Co.)
27	Food Lion (Ahold)
28	Smith's (Kroger Co.)
29	Hy-Vee
30	Giant Foods (Ahold)



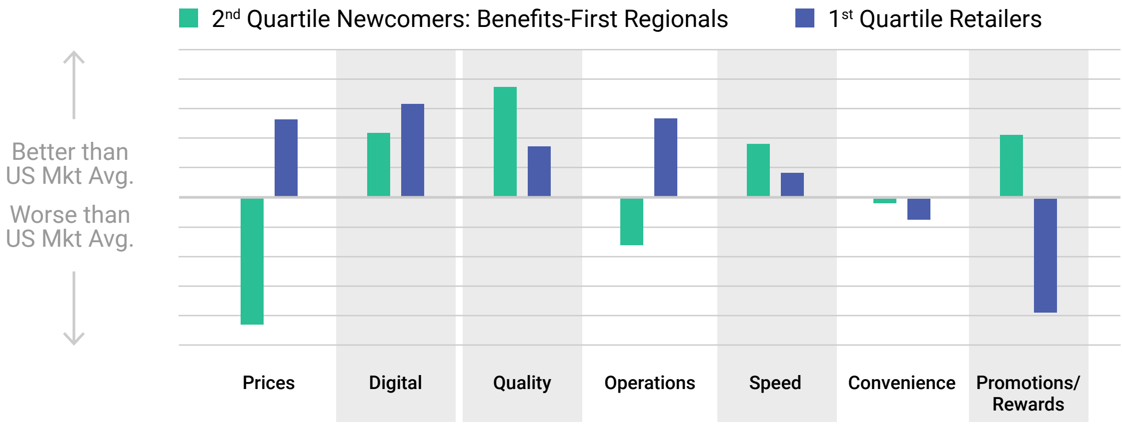
The Big Move

2nd Quartile grocers too have opportunities to reinvent their relationships with Customers. In fact, there has been movement in the rankings from the lower Quartiles entering the chase like a peloton. The biggest shake-up since before the pandemic was among retailers in the 2nd and 3rd Quartiles. This year, eight of the sixteen retailers in the 2nd Quartile are making their debut. Meanwhile, seven retailers who have consistently been in the 2nd Quartile slid back to the 3rd Quartile for the first time.

Digging deeper into the newcomers further illustrates which strategies have momentum. Prior to Covid, premium, traditional, personalization-led grocers who were further along in their digital transformation typically were stuck in the 3rd Quartile, because their Price disadvantages were too great, and their Quality advantages weren't enough. Furthermore, their speedy store experience and more evolved eCommerce weren't relevant enough to overcome this compromised Value Core.

Now, Speed and Digital carry more weight with Customers than they did prior to the pandemic. Customers are more willing to forgive a vulnerability in one side of the Value Core if the other side is clearly better than the competition. For this group of newcomers, their overall value proposition has never been more compelling:

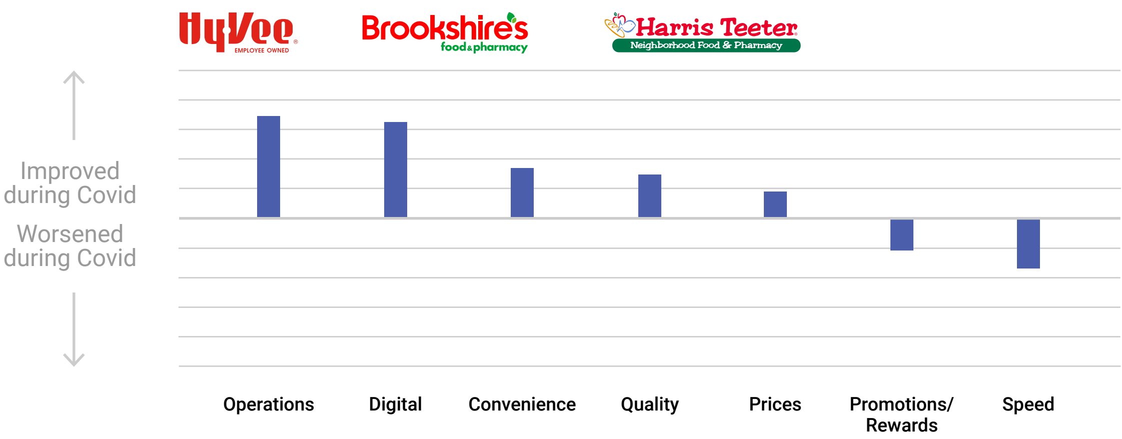
Newcomer Group: Benefits-First Regional Grocers



These Benefits-First Regional grocers beat 1st Quartile grocers with their product and experience Quality, edge them with Speed, and draw near parity with their Digital capabilities. Additionally, during Covid, their biggest improvements were in Digital, like many other leading retailers, as well as Operation. Pre-Covid performance was driven largely by scale and price perception.

The demand side of the equation was not winning because much of that innovation and differentiation was easily copied in store, eg. early national/organic retailers' advantage were copied by many traditional banners, at a lower price. But Digital and personalization open a door to more sustainable differentiation because it is largely below the line of sight.

Newcomer group improvements: Benefit-first regional grocers



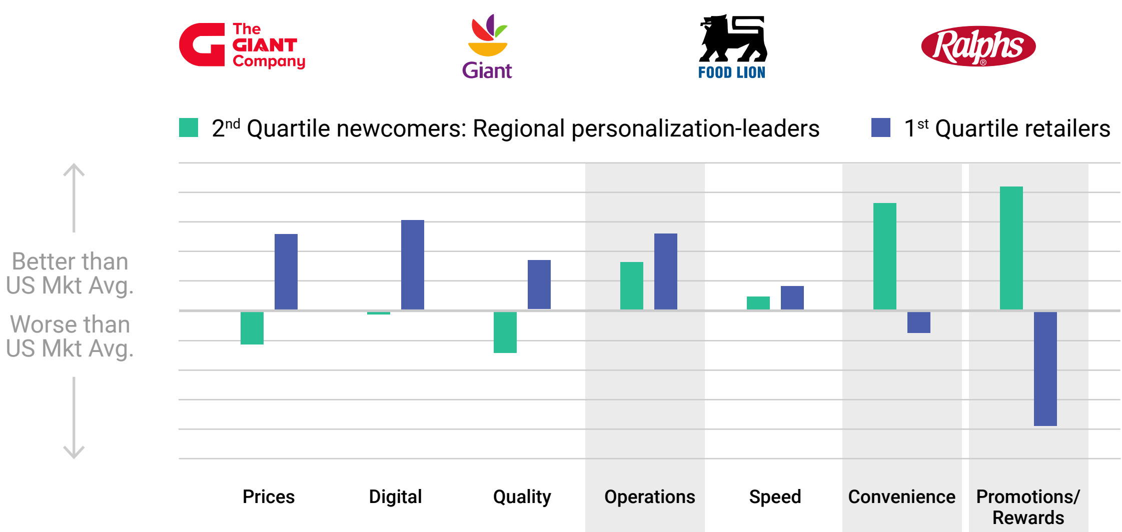
Why Price Still Dominates

These retailers have Operations scores that rival 1st Quartile retailers. Assortment relevance, an element of Convenience, and Promotions/ Rewards are the two sources of clear competitive advantage over 1st Quartile retailers.

What may ultimately hold them back from one day cracking the 1st Quartile and becoming a stronger option for more Customers is the depth of their Price disadvantage. Simply widening their Quality advantage to compensate for this Price disadvantage may likely not be a sustainable strategy, since the market appeal for a premium grocer typically narrows to a smaller and smaller population. Also, the more premium a grocer becomes, the more choosing the right real estate in a higher income neighborhood matters, and these retailers' stores already densely populate a wide variety of neighborhoods. So, to compete against 1st Quartile retailers, they will need to focus on improving their Prices while continuing to drive the benefit of time savings through Speed and Digital.

The other three newcomers to the 2nd Quartile are using a familiar personalization-first formula, one that worked for breaking into the 2nd Quartile in the past: market leading assortment relevance, base prices that aren't insulting, strong ability to keep products in stock and maintain price logic at shelf – all of which unlock the power of data-enabled personalization to give Customers compelling rewards and promotions:

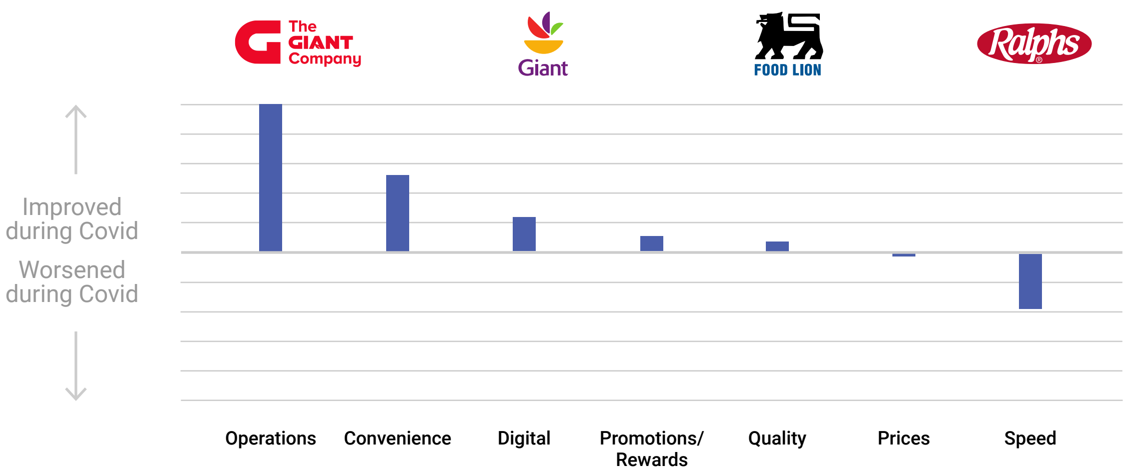
Newcomer Group: Regional Personalization-Leaders



These retailers have Operations scores that rival 1st Quartile retailers. Assortment relevance, an element of Convenience, and Promotions/ Rewards are the two sources of clear competitive advantage over 1st Quartile retailers. Other personalization-leaders in the 2nd Quartile – ShopRite, King Soopers, and Smith's – have consistently employed this same strategy over time.

The Personalization-Leader Newcomers group was able to make this leap by shoring up Operations vulnerabilities that existed prior to Covid. Such an improvement in the competitive position of Operations were likely appreciated by Customers, when out-of-stocks and pricing inconsistencies and fluctuations were market-wide issues:

Newcomer Group Improvements: Regional Personalization-Leaders



Despite improvements in Digital, this group of grocers is still well behind 1st Quartile retailers in this capability. With retailers market-wide investing in optimizing their own data practices, these leaders must continue to invest and not rest on legacy approaches to marshaling insights. Enhancing their Digital capabilities may help them push their Personalization edge even further, since data points collected on the omnichannel shopping journey will help them understand their Customers' needs.

VII. Digital Deep Dive: How to Win at Omnichannel in the Eyes of Customers

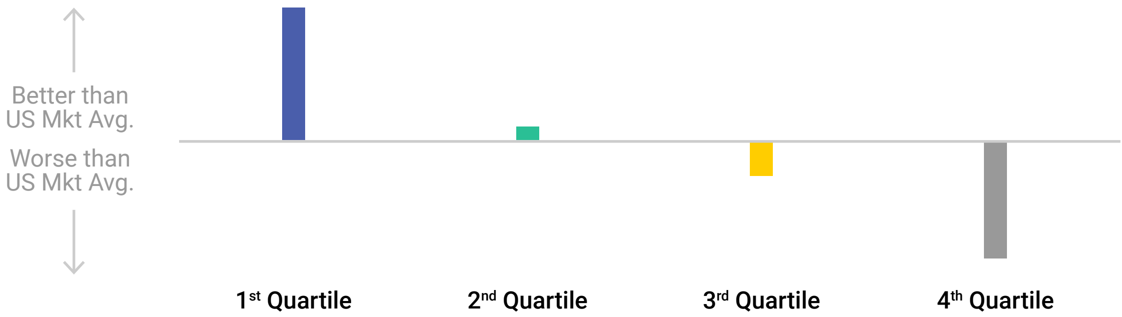
Digital capabilities are more important than ever before. This is the first year ever where Digital matters as much as Quality. Covid-era driven Customer shifts toward omnichannel are stickier than many had anticipated. These changes open a more relevant path for grocery retailers to drive competitive advantage. It is yet another opportunity for retailers to reinvent your relationship with Customers.

The retailers best positioned to win with Digital are:

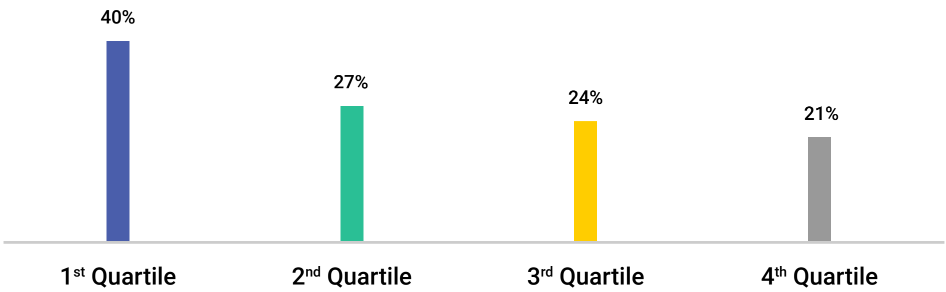
	Digital 1st Quartile
1	Amazon
2	Amazon Fresh
3	Target
4	Walmart
5	Sam's Club
6	Walmart Neighborhood Market
7	Lowes Foods
8	The Fresh Market
9	Brookshire's
10	Food City
11	HEB
12	Costco
13	Kroger
14	King Soopers

These retailers provide the easiest online shopping and enjoy higher online penetration with their shopper base:

Customer Perception "Has easy to use online shopping options" by Digital Quartile



Shopper base, average online penetration rates* (%) by Digital Quartile



Excluding Amazon, AmazonFreesh. 1st Quartile average increases to 46% with these retailers included

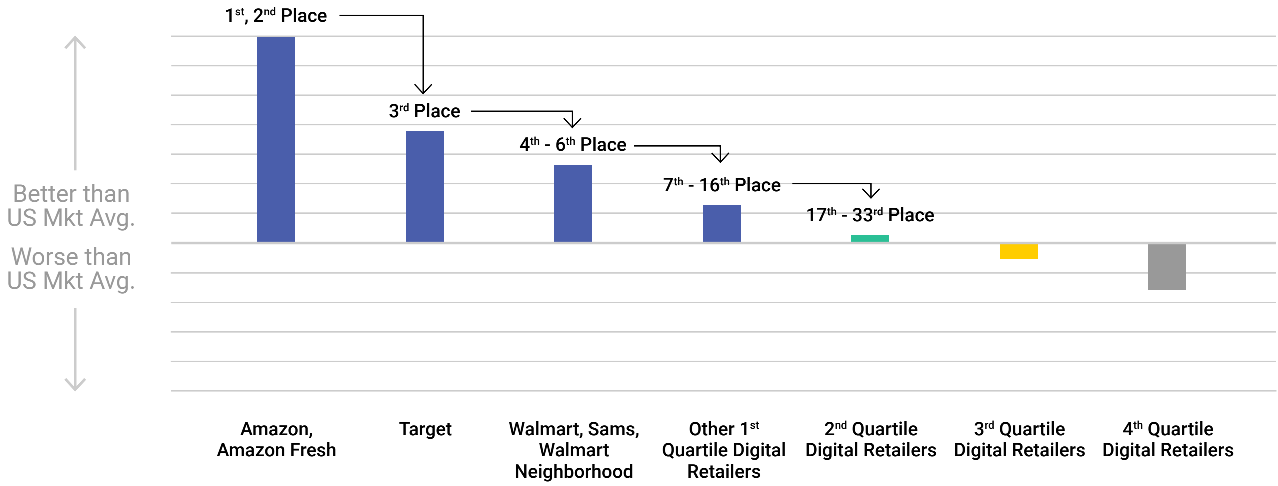
The Gap is wide in Digital

Excluding Amazon and Amazon Fresh, an average of 40% of Customers shop at 1st Quartile Digital retailers. These retailers clearly set themselves apart from the 2nd – 4th Quartiles in their omnichannel transformation journey. Digging even deeper, after the 1st Quartile, differentiation among the 2nd – 4th Quartiles in Digital capabilities is difficult for Customers to discern. Amazon, Target, and Walmart achieve clear gaps between each other and everyone else. The gap in Digital pillar score between Walmart (ranked 4th) and Kroger (ranked 13th) is as big as the gap between Kroger and the 59th ranked retailer:

Gaps in Digital Pillar score: scale of difference between Top Quartile and everyone else

This means that, after Kroger, differentiation in Digital begins to trail off. Even within the 1st Quartile, there is a clear separation between Amazon, Target, and Walmart, with the other 1st Quartile retailers. Amazon clearly outpaces Target, who edges Walmart, who clearly bests other 1st Quartile retailers:

Digital Pillar Score, by Retailer Groups



Human Touch Trounces Traditional Conglomerates

Examining the rankings further, the rest of the 1st Quartile and the 2nd Quartile divide fairly neatly into two groups: Human Touch Retailers and Traditional Conglomerates (Kroger Co., Albertsons Co., Ahold Delhaize). Human Touch retailers have staff whom Customers trust and who pick substitutes and produce the way they would. Traditional Conglomerates are represented in yellow:

Digital pillar retailer group
Differentiated Leaders (blue)
Human Touch Retailers (green)
Traditional Conglomerates (yellow)
Other (Everyone Else) (grey)

Digital 1st Quartile	Digital 2nd Quartile
Amazon	BJ's Wholesale
Amazon Fresh	Albertson's
Target	Giant Company
Walmart	Safeway
Sam's Club	Harris Teeter
Walmart Neighborhood Market	Stop & Shop
Lowes Foods	Fred Meyer
The Fresh Market	Hy-Vee
Brookshire's	Vons
Food City	Fry's Food Stores
H-E-B	Ralphs
Costco	Jewel-Osco
Kroger	Meijer
King Soopers	Save Mart

The Human Touch banners for the most part are smaller premium regional banners. Spots 7 – 12 are occupied exclusively by Human Touch Retailers, and Spots 14 – 28 are occupied almost exclusively by Traditional Conglomerates. Quartiles 3 and 4 are occupied mostly by retailers in neither of those two categories (i.e., “other”).

In other words, performance in the war for eCommerce and the Omnichannel Customer can so far be boiled down to a battle between four camps: The Differentiated Leaders, Human Touch Retailers, Traditional Conglomerates… and Everyone Else.

The Four Camps in Two Quartiles

So, what is leading to performance differences between these four camps? The clearest performance driver of Digital is the overall Ease and Reliability of the eCommerce experience. Customers view Ease and Reliability in two phases: the shopping and ordering phase and the fulfillment phase.

Human Touch Retailers

Human Touch Retailers excel at aspects of the omnichannel experience that are more people-intensive. This includes the **Ease and Reliability** of the Fulfillment phase, where they are stronger than even Differentiated Leaders, who excelled more at the more technology-based Shopping and Ordering phase:

Ease and Reliability: Shopping and Ordering

- Website/app is rarely down/rarely freezes
- Makes it easy to find what I need
- Can get my online shopping done fast
- Makes paying easy
- Charged the right amount

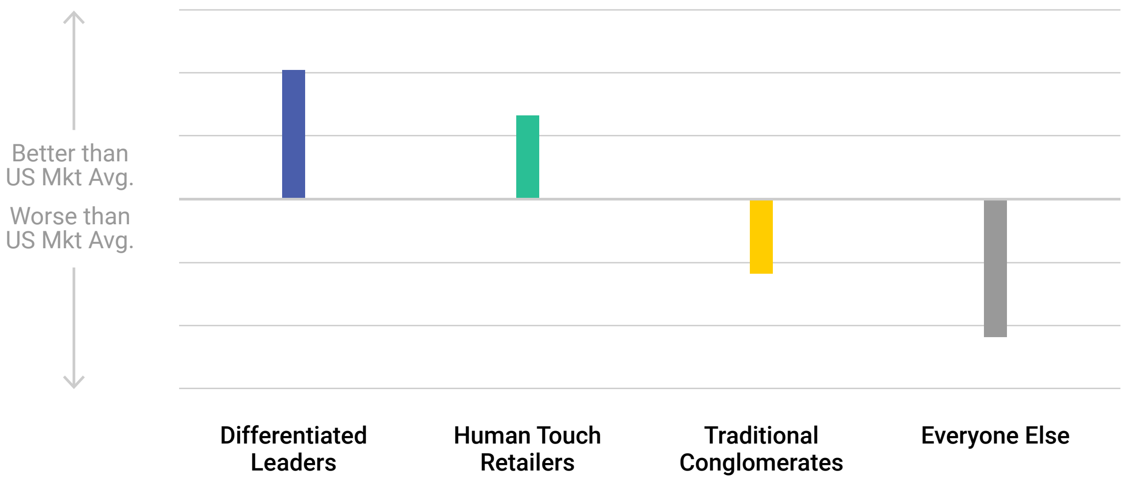
Ease and Reliability: Fulfillment

- Convenient time slots available for pick-up/delivery
- Orders delivered on time
- Get the products I ordered
- Makes returns/refunds easy

The rise of Ease and Reliability — a 1st-Quartile Advantage

The Ease and Reliability of shopping and ordering demonstrates the strongest relationship between Customer perception and Digital Pillar performance. Leaders Amazon, Target, and Walmart clearly beat Human Touch retailers (H-E-B, Costco, Fresh Market, etc.), who in turn beat the Traditional Conglomerates and Everyone Else:

Customer perception of ease and reliability: shopping and ordering



Customer appreciation for the time and hassle saved with easy reliable shopping and ordering, is a primary driver of migration of grocery dollars from brick and mortar to online[11].

[11]FMI Report. U.S. Grocery Shopper Trends Tracker 2021. August 2021.

> The freedom of shopping from home. You can start on any day, set a delivery time, and continue to shop before cut-off time.

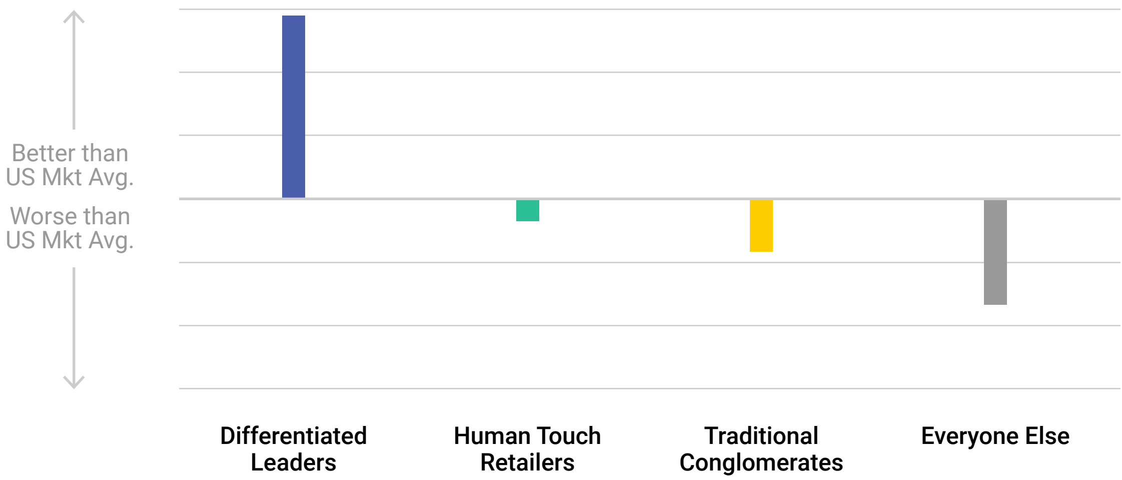
> One less trip. Florida's roads are very busy, and gas prices are high. Less stress knowing that my order is coming with a click of the app.

> Online it is easier and faster to shop. I can go through every item on my list and find replacements if needed easier compared to physically walking around a store and doing the same.

> It does provide a sense of relief in a hectic world. It is nice to occasionally give up control and just take a breath while somebody else runs an errand for you.

Customers value the flexibility of shopping at their leisure and the opportunity it gives them to put their feet up; their ultimate goal is to save themselves a trip to the store, which incomplete orders can thwart. Differentiated Leaders do a much better job of managing perception of out-of-stocks for online orders:

Customer perception of recent online Out-of-Stock rates



As with Ease and Reliability of Shopping and Ordering, managing Customer perception of out-of-stocks has a strong and positive relationship with Digital performance. This should give hope to anyone not in the 1st or 2nd Quartiles of the Digital Pillar, since the shopping and ordering process and managing out-of-stocks are, in theory, within a retailer's control and can be improved with focused effort.

Additionally, improving Customers' perception of out-of-stocks goes beyond item availability, and it can be more broadly about managing Customer expectations and allowing them to make informed decisions when shopping.

> Often, after placing an order, several items end up not coming, which means having to order elsewhere and wait again. Better to know availability upfront to plan.

> Sometimes they say they are out of an item, but when I go in the store, they clearly have the item and sometimes a ton of them.

> I get frustrated when things are out of stock, so they don't get it and don't even let me know.

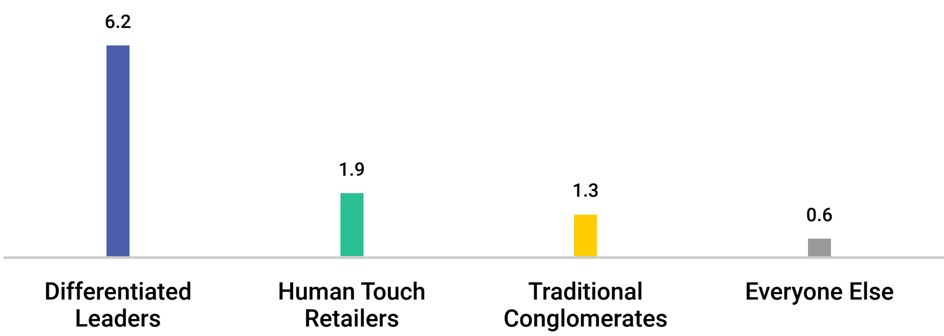
> Item availability changes from week to week. Items I previously ordered online are now in-store purchases only. No rhyme or reason to what is available online.

Clear, timely and consistent information about availability gives the Customers choice, minimizing frustrations with out-of-stocks.

Another 1st-Quartile Advantage: Scale

Scale, a source of disadvantage for those outside of the Leaders — is a less immediate fix than out-of-stocks or improvements to the online shopping experience. Digital performance has increased in total U.S. Grocery Market share. But this is especially pronounced between the Leaders and everyone else:

Average US grocery market share (%)

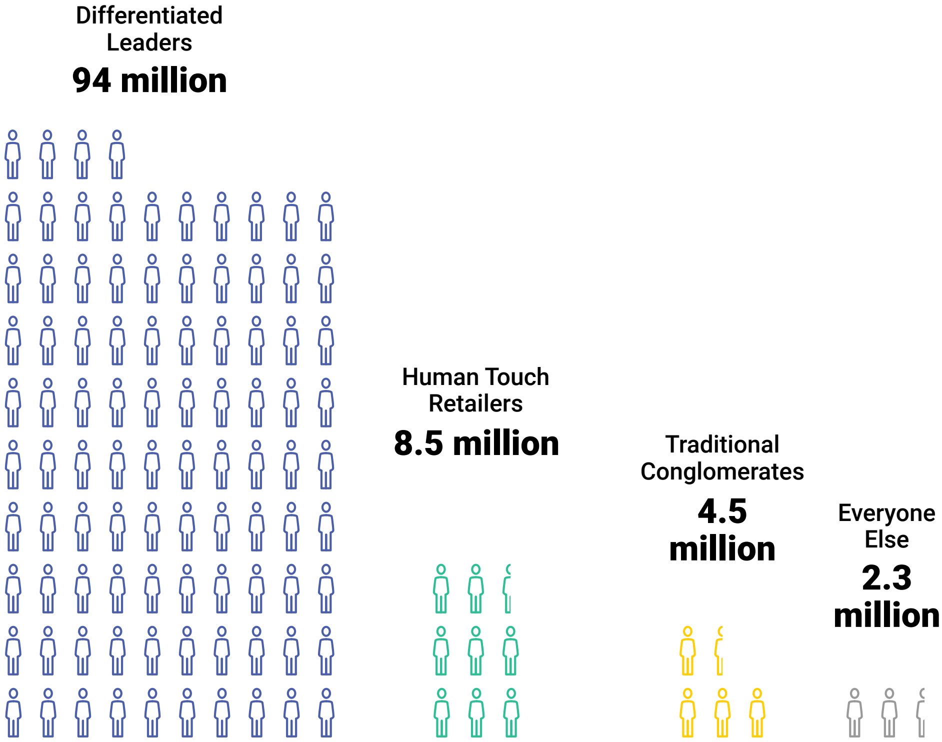


Scale is in fact one advantage Differentiated Leaders have in navigating supply chain disruptions and minimizing out-of-stock issues. Because of their size, these Leaders are often first in line with suppliers to receive suddenly scarce items, and Leaders have more resources ($$$) to invest in vertical integration, to completely circumvent the need to work with suppliers.

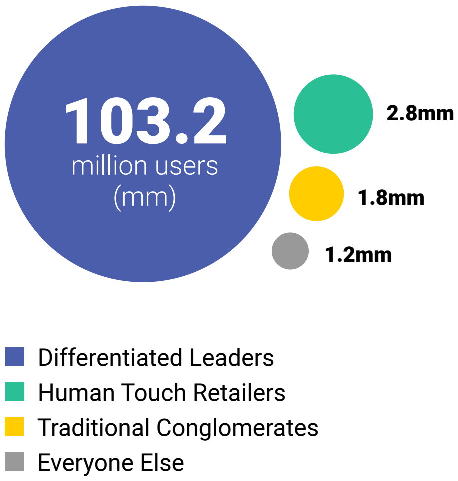
Scale also translates into the ability to more quickly develop an active online user base. This user base leads to more total visits, which gives Differentiated Leaders more opportunities to learn and optimize the already excellent ease and reliability of their eCommerce processes. This scale-driven gap in opportunity to learn is evident when looking at digital intelligence provider Similarweb's reported differences in monthly online grocery visits and the number of active app users[12]:

[12] Similarweb database.

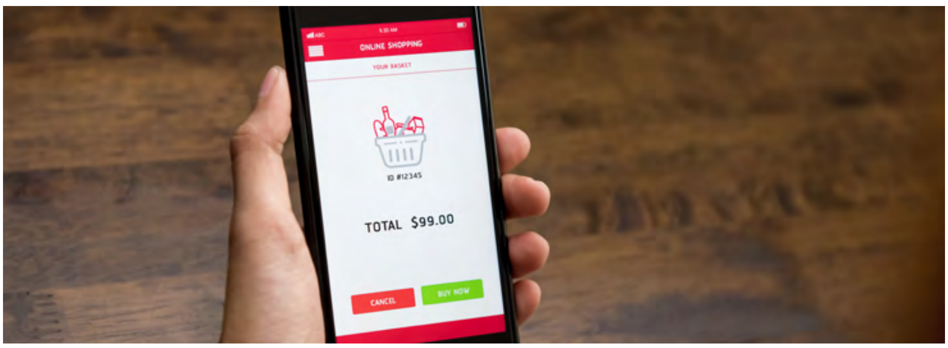
Online Grocery Visits Per Month: Q3 2021 (average among banner with Digital group)



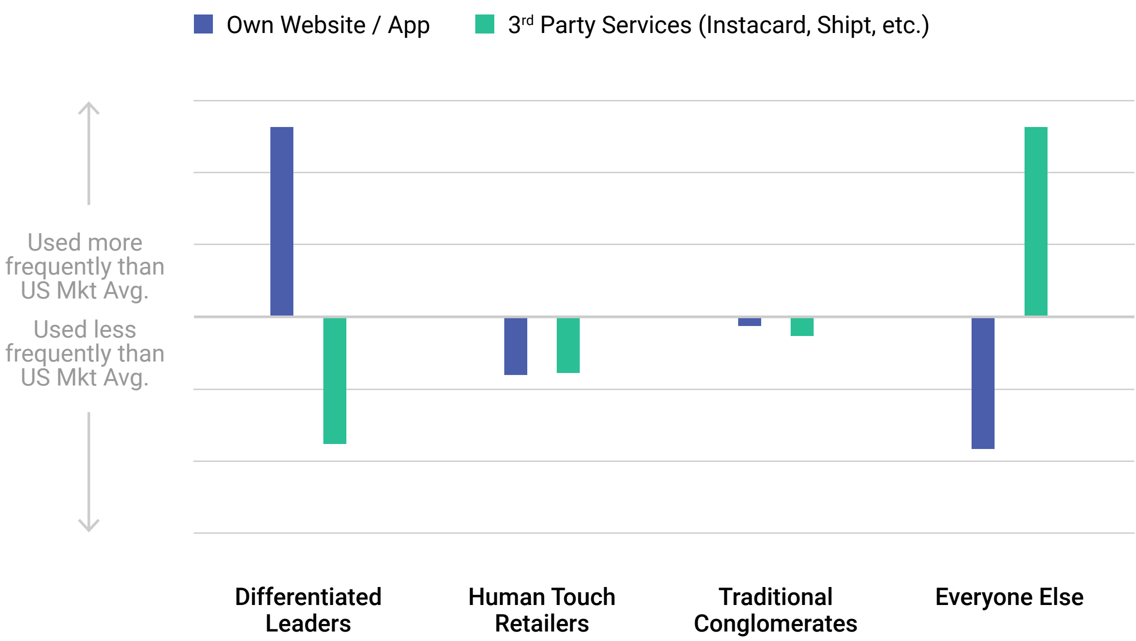
Active app users per month: Q3 2021 (average among banner with digital group)



Of course, banners that use their own platforms to facilitate shopping and ordering — rather than a 3rd party service like Instacart — are the only ones who can directly apply lessons learned. It should come as no surprise then that Leaders are much more likely to have Customers transacting on their own digital platforms, compared to other Digital groups. The 4th tier group — Everyone Else — relies on 3rd party platforms more than any other cluster and twice as much as the Differentiated Leaders. This comparison underscores the importance of having control over the Customer's digital experience.

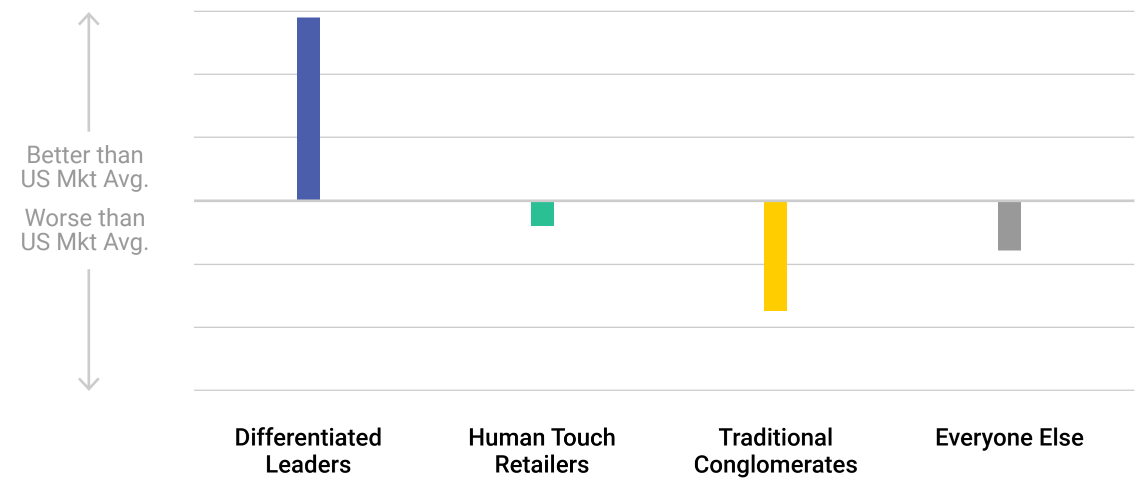


Platforms customers use to place orders



Leaders are also using their scale to push a Customer benefit that is particularly unique to them: lower base prices online. After Differentiated Leaders, no Digital group excels at base prices, and there isn't a relationship between base prices and Digital performance:

Customer perception of recent online base prices



Customers' perception of what impact shopping online has on their grocery budget varies. Some feel they save more because it helps them stick to their grocery list, while others limit their online visits to avoid additional fees and higher online prices.

> Shopping Online reduces the impulse to pick up everything that looks good; can keep somewhat better tabs on what the bill's total will be.

> When using Instacart, they charge you more money for every item and then add a delivery and sales fee. After taxes and tips, you're paying almost double for your order.

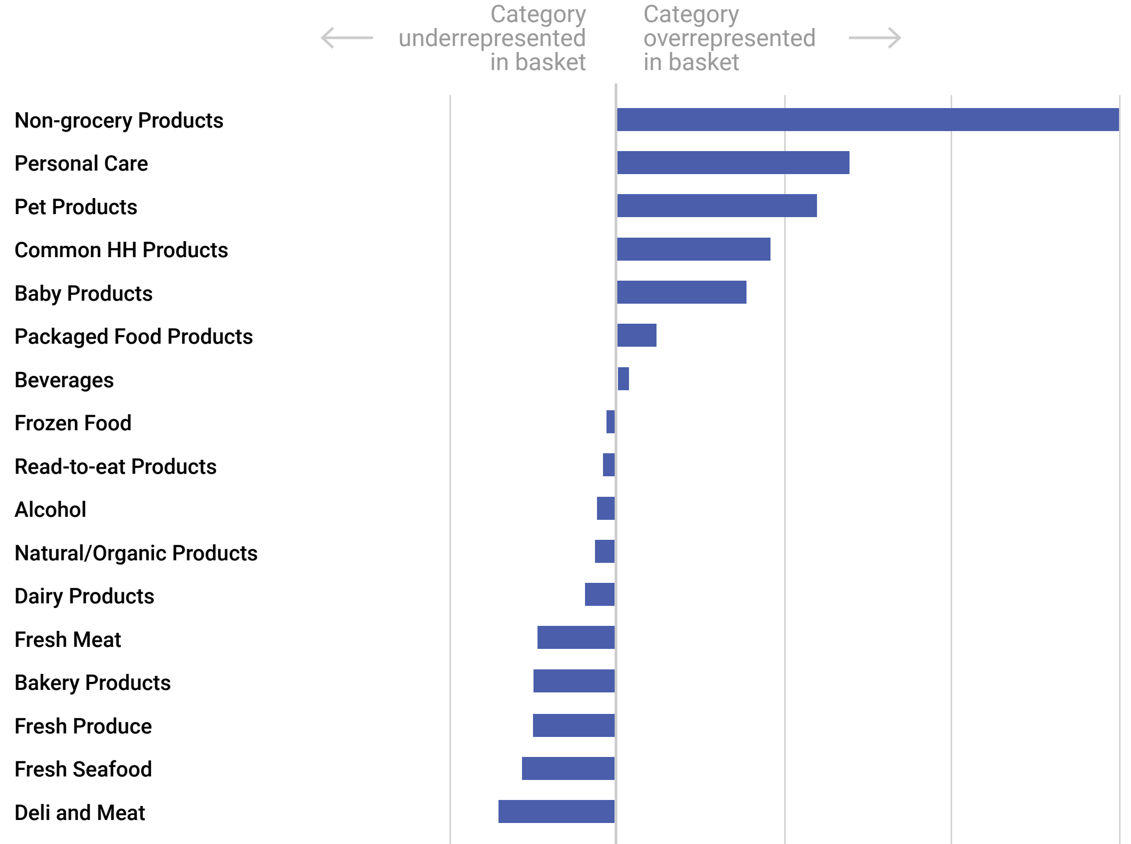
> I get frustrated by the difference in prices of products in-store and online.

When looking at category concentration scores relative to the rest of the market, the Leaders are especially more likely to be known as a destination for non-grocery products.

The Destination Advantage

Also unique to Leaders is what Customers think of them as a destination for. More so than other retailers, Leaders find their Customers' baskets over-represented by commodity products in non-grocery and non-food categories (e.g., paper and cleaning products, pet products, toiletries and grooming products, electronic toys, books, etc.). Outside of the Leader group, the rest of the Digital groups tend not to be destinations for these categories (their category concentration scores look similar). When looking at category concentration scores relative to the rest of the market, the Leaders are especially more likely to be known as a destination for non-grocery products:

Category concentration in customer basket for differentiated leaders (relative to rest of grocery market)

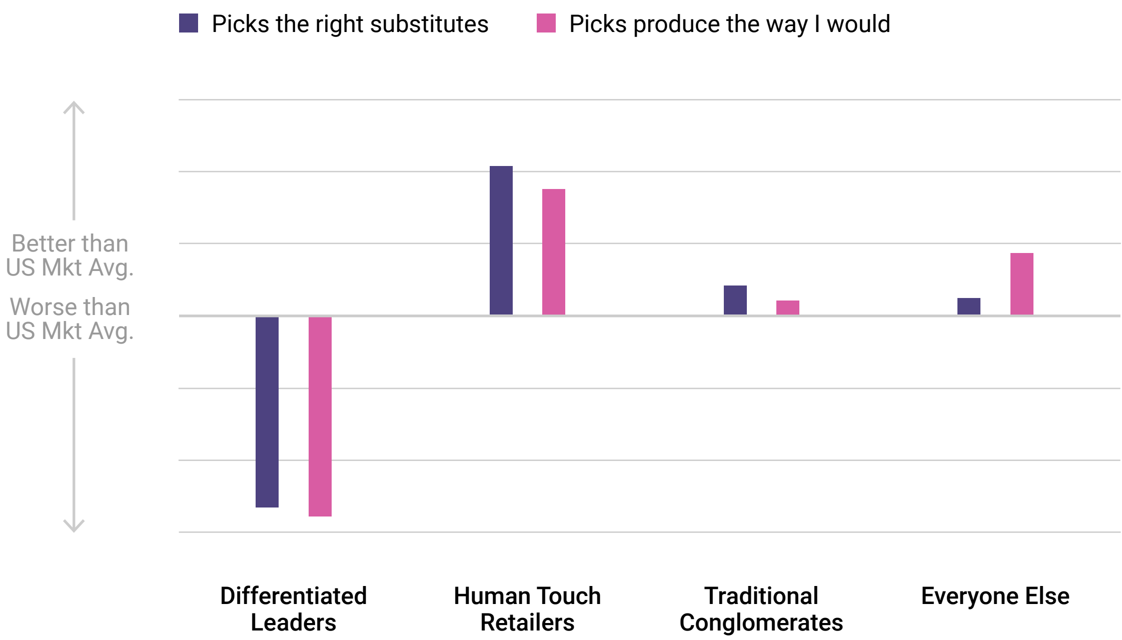


This advantage in non-grocery for Amazon, Walmart, and Target, is likely beyond the control of other Digital groups to significantly close without vastly reimagining their Customer value proposition.

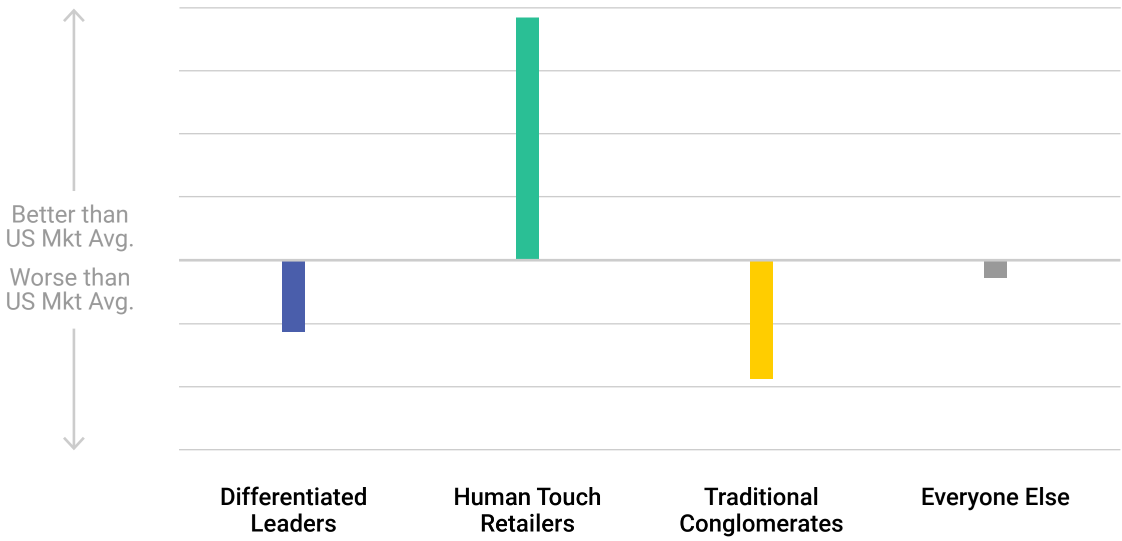
Customer perception of ease and reliability

In addition, Human Touch retailers have earned more trust from Customers to pick the right substitutes and pick produce the way they would. This Human Touch advantage is an effective example of omnichannel grocery retail at work. These same retailers also have secured the Customer's perception that store staff values them:

Customer perception of human touch in online experience



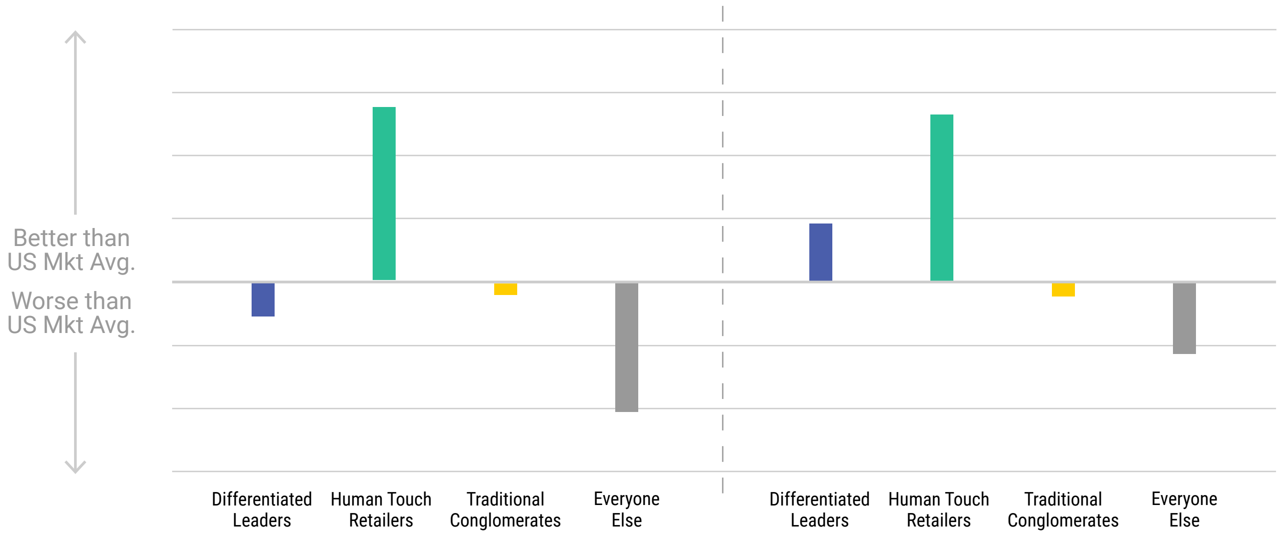
Customer perception of store staff value me (channel agnostic)



Human Touch retailers helps the omnichannel experience feel less impersonal. In fact, Customers feel the entire online experience feels more personalized and that the information they send them overall, regardless of channel, is more useful than other retailers:

Customer perception: online experience feels personalized

Customer perception: sends me useful information (channel agnostic)

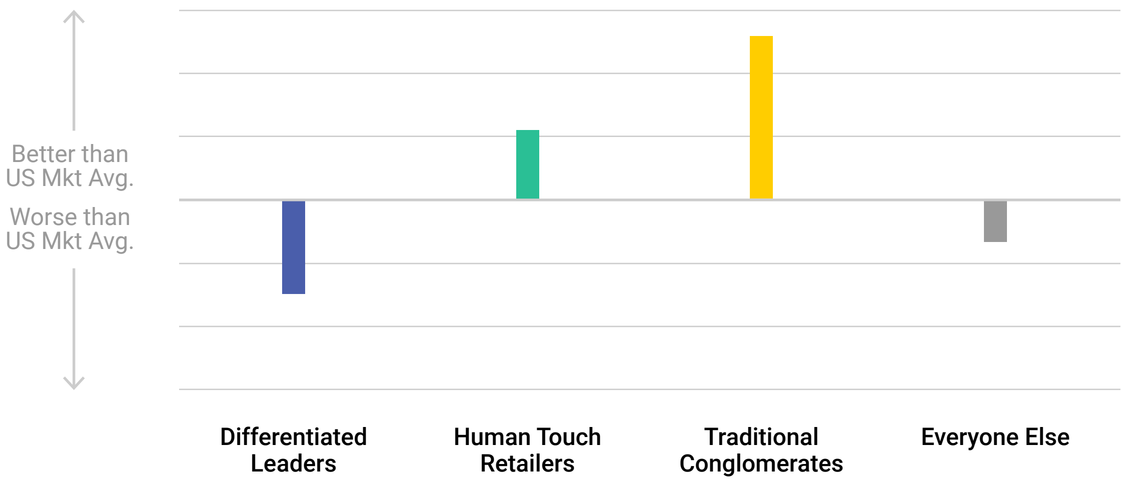


Delivering personalized, omnichannel Customer experiences appears to be Human Touch retailers' core competency, and they coordinate action across their staff and information they send Customers to ensure this core competency is delivered.

Traditional Conglomerates

Banners under Traditional Conglomerates Kroger Co., Ahold, and Albertsons Co. provide another case study in retailers delivering their core competency in an omnichannel way. These retailers are market leaders in relevant promotions and rewards, and they facilitate Customer activity in these areas online.

Customer perception: has Relevant Coupons, Promotions and Rewards (channel agnostic)



Online activities where Traditional Conglomerate customers over-index the most:

Searching for sales

Checking loyalty rewards and status

Selecting personalized digital discounts

Viewing the weekly ad

Putting these Goliaths on their heels may seem like an impossible task for the Davids, but Human-Touch Retailers and Traditional Conglomerates have shown there is a way. Viewed from a different angle, the Davids may be even better-positioned than the Goliaths to win the omnichannel future.

So How Will the War for the Omnichannel Customer be Won?

Differentiated Leaders like Amazon, Target, and Walmart are currently winning the war for eCommerce. They are doing so through superior Ease and Reliability of the more tech-based, automated shopping and ordering process and the ability to perfect that process through learning and economies of scale. Additionally, commodity non-food products likely lends itself to a more reliable, predictable ordering and fulfillment process.

Putting these Goliaths on their heels may seem like an impossible task for the Davids, but Human Touch Retailers and Traditional Conglomerates have shown there is a way. Each of them marshals personalization either through experience or promotions and rewards. The retailer who can seamlessly wield both of these approaches in-store and online may have a fighting chance to win the war.

While leaning into their strengths is necessary to battle the Differentiated Leaders, they must also focus on closing critical gaps on Customer needs most associated with strength in Digital: ease and reliability of shopping and ordering and the ability to manage online out of stocks. These two areas showed the strongest, positive relationship with Digital pillar rankings and eCommerce results. Negating these competitive disadvantages should be a high priority to anyone who isn't a Differentiated Leader.

Viewed from a different angle, the Davids may be even better-positioned than the Goliaths to win the omnichannel future. Recall that about half of the U.S. population still doesn't buy online and has no intention to, despite Covid giving them the strongest motivation they may ever face. Omnichannel for this half of the population will be about something other than the transaction. Additionally, the lion's share of dollars currently and likely will always continue to flow through the brick and mortar store, in grocery, a sector where most analysts estimate the ceiling for eCommerce share of dollars is among the lowest. This means that personalization of the human touch, information, and rewards/promotions, along the entire shopping journey to the final transaction, will be the omnichannel experience need most relevant to most people. This also provides the Davids with a way of sustainably differentiating which has historically been difficult to do in-store only. Understanding and engaging with Customers through online and offline channels is a way for them to connect with their Customers better than the national banners, who are juggling dozens of different markets. Omnichannel and the associated Customer data and insights opens a new door for the David's to compete with the Goliaths.

VIII. Winning the War on Talent and Its Implications for Winning Customers

Lastly, in the wake of a summer of protests in response to George Floyd's death, company cultures and values nationwide are increasingly in the spotlight, specifically on a company's ability to foster a sense of belonging among its employees by promoting diversity and inclusion.

The grocery industry is used to people challenges. The grocery retailers in our study employ between 10,000 and 400,000 people. Prior to Covid, turnover for an average retailer hovered between 40% and 45%, but during Covid that number surged to around 60%[13].

Amid mass turnover in 2021, grocery retail struggled to fill roles, with unemployment rates double the economy in general. This put a strain on grocery store employees who stayed, who were asked to do more than ever before and answered that call, increasing their labor productivity rates 4x faster than pre-Covid trends. At the same time, however, these same workers were on the front lines of Covid, working in the very same crowded grocery stores consumers changed their behaviors to avoid.

Covid-driven increases in workload and turnover, the changing nature of employee tasks brought about by the surge in eCommerce, and the general trend we see in the economy of workers looking to reinvent themselves, is requiring grocers to also reinvent how they attract, engage, and retain talent. We see signs of grocers taking their first steps in this reinvention. To better attract employees, they are increasing minimum pay, offering signing bonuses[14], and paying for college.[15]

As for retention, Walmart is one example among many with a focus on career growth opportunities and upskilling[16]. Some retailers even see a Digital transformation as an opportunity to rebrand themselves as a tech company that sells groceries, rather than a grocery store that happens to use technology. This repositioning may help attract and retain younger employees, in particular.

Lastly, in the wake of a summer of protests in response to George Floyd's death, company cultures and values nationwide are increasingly in the spotlight, specifically on a company's ability to foster a sense of belonging among its employees by promoting diversity and inclusion. Companies had already relatively quietly been prioritizing diversity and inclusion, with the number of diversity executive roles doubling between 2015 and 2019[17]. In late 2020 and 2021, a wave of belonging-related company announcements and business cases were made specifically for retail[18]. Kroger[19], who rolled out a Diversity, Equity and Inclusion initiative in the fall of 2020, is one example of this in grocery.

[13, 15, 16]Bureau of Labor Statistics.

[14]Business Insider. June 2021. https://www.businessinsider.com/labor-shortage-sign-on-bonus-bonuses-supermarkets-convenience-stores-2021-6

[15]Forbes. August 2021. https://www.forbes.com/sites/jackkelly/2021/08/05/target-and-walmart-are-offering-free-college-tuition-to-attract-and-retain-workers/?sh=1115bff031d2

[16]Progressive Grocer. https://progressivegrocer.com/workforce-2020-sneak-peek-future-labor-grocery-industry

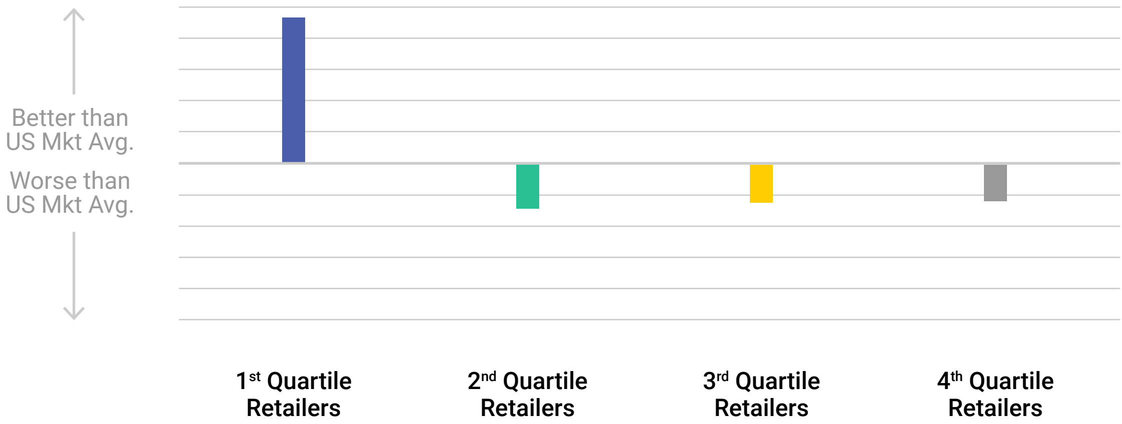
[17]HR Dive. https://www.hrdive.com/news/di-roles-have-more-than-doubled-since-2015-report-says/581309/

[18]McKinsey. https://www.mckinsey.com/industries/retail/our-insights/the-diversity-imperative-in-retail

[19]Supermarket News. https://www.supermarketnews.com/issues-trends/kroger-enacts-sweeping-plan-promote-diversity-and-inclusion

The retailers that deliver best on employee engagement drivers will have a stronger overall employee value proposition and have the easiest time attracting and retaining the best talent. A study of Glassdoor data reveals that, within grocery, the retailers with the best employee value propositions in the U.S. are, perhaps not coincidentally, retailers who are in our 1st Quartile overall of our 2022 RPI ranking:

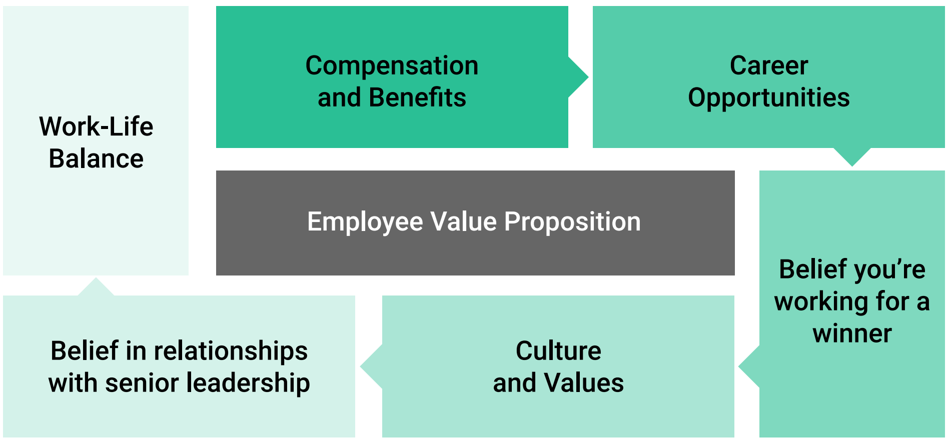
Overall employee satisfaction by retailer RPI Quartile



Developing a winning Customer value proposition and employee value proposition go hand in hand. 1st Quartile retailers prove that securing a winning employee value proposition can lead to superior financial results (remember, 1st Quartile retailers grow 9x faster than 4th Quartile retailers, 2x faster than 3rd Quartile retailers and 1.5x faster than 2nd Quartile retailers). However, unlike with financial results, there is not a linear relationship between overall employee satisfaction and Quartile ranking. Rather, this is a story more of haves and have-nots, with the top-tier retailers having a superior ability to attract and retain top talent.

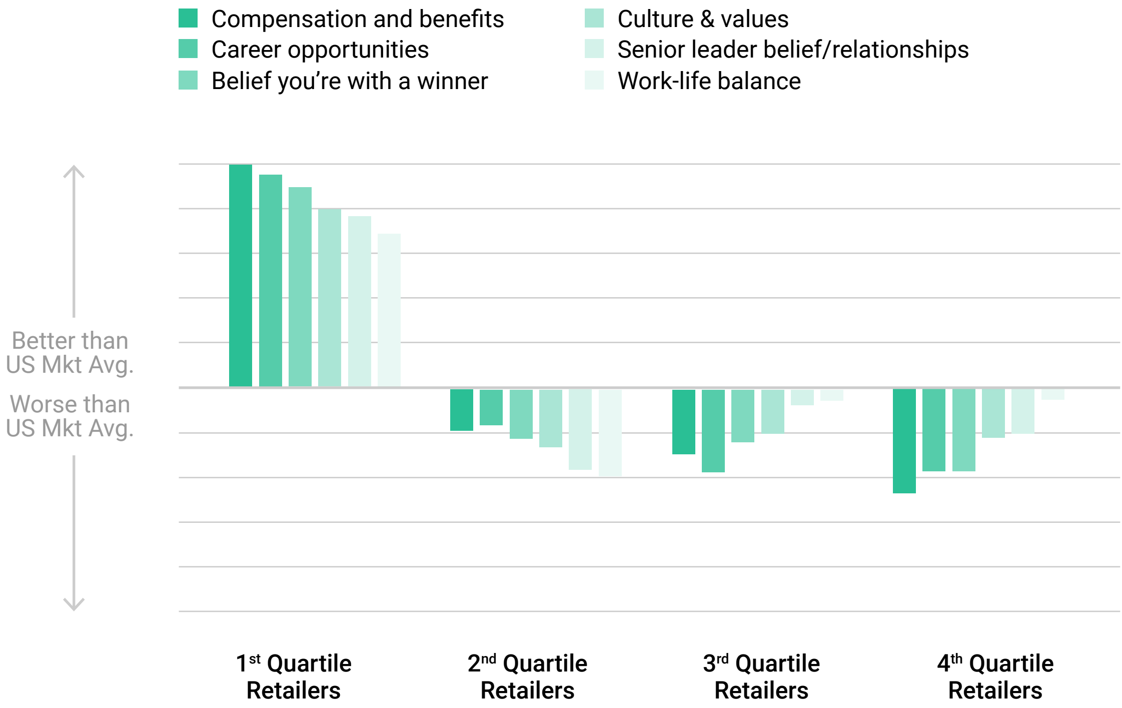
Again, when looking at Glassdoor data, we also see that developing a winning value proposition for employees is a different game than developing a winning Customer value proposition. It appears that there is no need to make trade-offs in deciding which engagement drivers to deliver to employees. Rather, building employee engagement is a matter of building a holistic offering that addresses the whole employee:

Building blocks of employee engagement



1st Quartile retailers easily outperform 2nd, 3rd and 4th Quartile retailers on all building blocks of Employee Engagement, making it difficult to conclude that choosing the right employee value proposition is a matter of prioritizing one or two building blocks over the others:

Employee perception of employee engagement building blocks by Retailer RPI Quartile



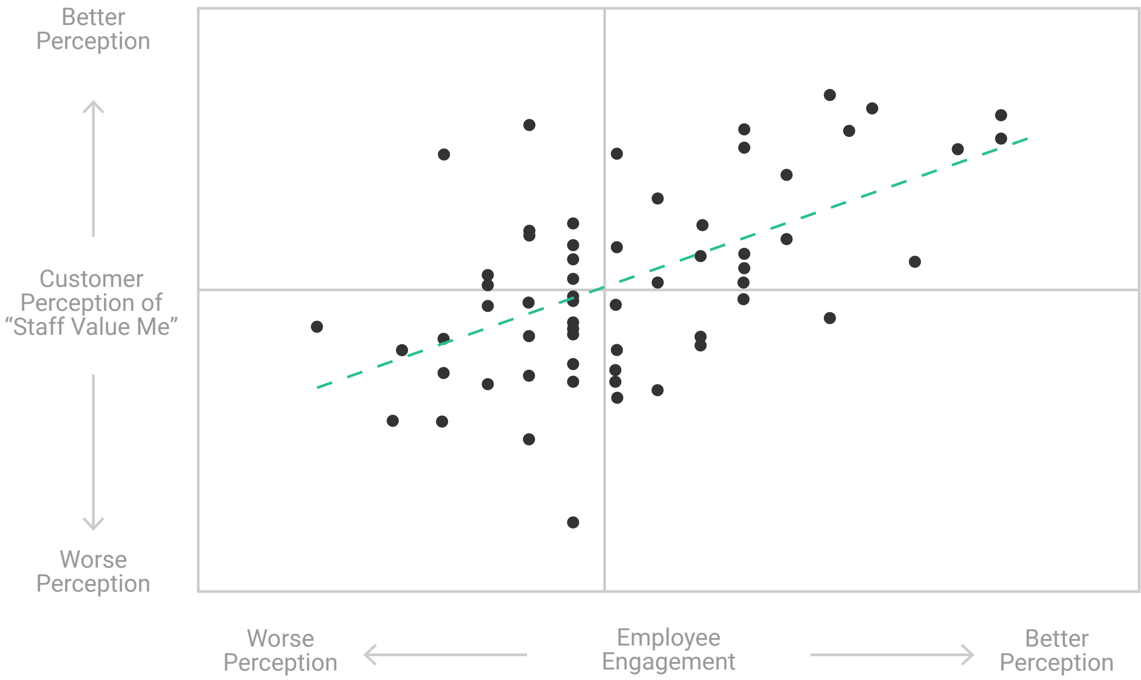
While prioritizing between Employee Engagement Building Blocks may prove difficult, there are choices within building blocks a retailer must face. For instance, how does a retailer build the perception among employees that they have career advancement opportunities? Internal dunnhumby research has found that having a career development plan in place that is designed around employee passions, strengths and interests is paramount, as is recognizing employee's for the unique value they bring to a company. Within culture and values, how does a retailer foster a sense of belonging, in which employees feel comfortable bringing their authentic selves to work? This is where establishing a norm of constructively questioning leaders and each other and productively addressing exclusive behaviors becomes a priority. What a retailer ultimately prioritizes should result from keeping their finger on the pulse of their employees' engagement. They should carefully consider what is important to their specific employee base, as well as where those retailer's weak and strong spots are in their Employee Value Proposition.

Looking at employee perception of the engagement building blocks from Glassdoor's data, it is no coincidence that 1st Quartile retailers hold their Customer-based RPI rankings relatively stable one year to the next, while Quartiles 2 – 4 experience more ranking variation. It appears a 1st Quartile retailer's ability to consistently maintain competitive advantage over the rest of the market is directly related to the uniqueness of their employee value proposition from that same competitive set.

The five grocery retailers that score the highest on employee engagement, who also happen to be in the 1st Quartile of the RPI, are the best examples of this. In order, they are: H-E-B, Trader Joe's, Wegmans, Costco and Fareway. Also near the top is Digital Human Touch retailer, Lowes.

A differentiated employee value proposition doesn't just bear fruit for down-stream financials. Customers notice when employees are more engaged as well. There is a clear relationship between the Customer perception that "staff value me" and a company valuing their staff:

Employee love leads to customer love



In the end, there is a virtuous cycle between Employee Engagement and Customer Engagement. More engaged employees lead to a workforce that is more motivated to learn about the offering, sell the offering and maintain the offering, and they pay that enthusiasm forward in direct interactions with Customers. Customers in turn give a greater share of wallet and/or more visits to the retailer with this better overall offering, which means better financial results for retailers. Better financial results then mean that retailers can reinvest in their employees, which drives better employee engagement. And this cycle continues. Most 1st Quartile retailers have entered this slipstream.

IX. Closing thoughts

So where do we go from here?
The unexpected twists and turns in Covid have made prognostication challenging to say the least. Covid is the catalyst to what is happening and, as the cases go up and down, this impacts consumer behavior, which in turn impacts the economy, retail sales, and grocery sales.

Covid impacts how many people are working and how many are staying home. According to Goldman Sachs, of the estimated 5 million people who have left the labor force during during Covid, about 60% are people who retired early and probably won't come back, and 40% are people who have not re-entered because of safety concerns, family responsibilities, or decided to go back to school. This reality has resulted in a labor shortage, which has increased wages, and increased costs for most business, particularly retail. The stimulus checks and uncertainty about the future also resulted in about about $2T in incremental savings for households, which has been a big driver in strong retail demand which has also helped to drive product shortages and empty shelves across the economy and which also increases inflation and prices. For grocery, we have also seen shoppers making fewer trips, buying bigger baskets, and cross shopping less. And as we have shown above, this has translated in the time saving drivers becoming more important while price and quality, although still important, are much weaker versus pre-Covid.

With that said, what's in store for grocery in 2022? Unfortunately, the last couple of years suggests that variants, such as Delta and Omicron, will likely be popping up until the world is immunized or until we hit herd immunity. 2022 will likely look more like the last two years than 2019. This means…

1. Labor shortages will likely linger which will continue to impact the supply chain and keep food inflation above historical levels, although not as high as 2021

2. Out of stocks will also continue to be an issue and minimizing these impacts will continue to be important for sales growth

3. People will continue to work more from home and prepare more meals at home. Thus, we will likely see grocery sales remain above pre-pandemic levels, but also continue to see soft visits and bigger baskets

4. Sales growth, like 2021, will be driven primarily by price increases rather than unit increases

5. eCommerce and saving shoppers time will remain important drivers for both visits and revenue, which opens up opportunities in omnichannel for many of the smaller regional retailers

6. Adapting to changing customer needs with data and an ability to implement quickly will remain important as we move through the different Covid phases

7. With the reduction in stimulus payments in 2022 and continued food inflation, price sensitivity will likely increase, which could lead to more promotional activity for some and lower base prices for others

But we also suspect that when Covid stops impacting customer behavior, visit frequency and cross shop will once again transition toward the pre-Covid trends. This should also translate into fewer labor shortages and supply chain issues, which in combination with less stimulus driven demand, will moderate price increases and out of stocks.

The higher cross shop will also likely lead to increased competition, which will likely make price a bit more important along with quality as shoppers optimize the quality of the items they purchase based on their income constraint. But price and quality will not likely be as dominant as it was before Covid which provides retailers with more ways to compete and differentiate their offering.

The big question, which nobody has an answer to, is when will Covid no longer impact customer behavior. The likely scenario is it will continue to transition back toward longer term trends, but the speed of the transition and the final outcomes are still up for debate. So for 2022/2023 planning, the outlook will probably be similar to 2021, but we will continue to see a slow adjustment toward many pre-Covid trends (cross-shop, basket size, visits, price sensitivity, promotions, etc). The speed of the transition will depend on many things, so having one's pulse on customer's evolving needs and an ability to react quickly to these changes will be essential for success.

X. About dunnhumby

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 Data 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 nearly 2,500 experts in offices throughout Europe, Asia, Africa, and the Americas working for transformative, iconic brands such as Tesco, Coca-Cola, Meijer, Procter & Gamble and Metro.

XI. Top Performers in Each Pillar

Price 1st quartile
Aldi
Market Basket
Winco
Grocery Outlet
Save A Lot
Lidl
Food4Less/FoodsCo
Walmart
Military Commissaries
Price Rite
Marc's
Walmart Neighborhood Market
Costco
H-E-B

Quality 1st quartile
Wegmans
Trader Joe's
Fresh Thyme
The Fresh Market
Sprouts
Publix
H-E-B
Big Y
Harris Teeter
Costco
Lowes Foods
Food City
Market Basket
Schnucks

Digital 1st Quartile
Amazon
Amazon Fresh
Target
Walmart
Sam's Club
Walmart Neighborhood Market
Lowes Foods
The Fresh Market
Brookshire's
Food City
H-E-B
Costco
Kroger
King Soopers

Speed First Quartile
Fareway
Grocery Outlet
Aldi
Amazon
Save A Lot
Trader Joe's
Fresh Thyme
Publix
The Fresh Market
Target
Amazon Fresh
Lidl
Food Lion
Ingles Markets

Operations 1st quartile

Market Basket
Publix
Costco
BJ's Wholesale
Winco
Wegmans
Hy-vee
ShopRite
H-E-B
Ralphs
Vons
Trader Joe's
Shaw's/Star Market
Fred Meyer
Meijer

Convenience 1st quartile

Walmart
Publix
ShopRite
Walmart Neighborhood Market
Shaw's/Star Market
Stop & Shop
Tops Friendly Markets
Market Basket
Marc's
Jewel-Osco
Ralphs
Fred Meyer
Giant Eagle
Price Chopper
Fry's Food Stores

Promotions/Rewards 1st quartile

Fry's Food Stores
Tops Friendly Markets
Kroger
Smith's
Price Chopper
Winn-Dixie
Food Lion
Giant Company
King Soopers
Safeway
Fred Meyer
Food City
Giant Foods
Family Fare
Meijer

XII. Retailers Included in This Year's Report

Acme	Lowes Foods
Albertsons	Marc's
Aldi	Market Basket
Amazon	Meijer
Amazon Fresh	Military Commissaries
Big Y	Price Chopper
BJ's Wholesale	Price Rite
Brookshire's	Publix
Costco	Ralphs
Family Fare	Safeway
Fareway	Sam's Club
Food City	Save A Lot
Food Lion	Save Mart
Food4Less/FoodsCo.	Schnucks
Fred Meyer	Shaw's/Star Market
The Fresh Market	ShopRite
Fresh Thyme	Smart & Final
Fry's Food Stores	Smith's
Giant Company	Sprouts
Giant Eagle	Stater Bros.
Giant Foods	Stop & Shop
Grocery Outlet	Target
Hannaford	Tops Friendly Markets
Harris Teeter	Trader Joe's
H-E-B	Vons
Hy-Vee	Walmart
Ingles Markets	Walmart Neighborhood Market
Jewel-Osco	Wegmans
King Soopers	Weis
Kroger	WinCo
Lidl	Winn-Dixie

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Connect with us to start the conversation

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