Succeeding in Grocery e-commerce

August 23, 2014
Grocery delivery has been around for a while…

McCall’s Magazine – New York City 1913

DINNERS BY PARCEL POST

By ELSA HARWOOD WHARTON

DINNER by Parcel Post! Why not?” said a clever New York woman when she heard of the new postal system that was to be put into operation the first of the year. “There is nothing to prevent.”

Do you not pass your city fruit-stands with a sigh, thinking of the long way its apples, and pears, and peaches have traveled before they are offered to you for purchase? Do you not sometimes think with a shudder of the street dust that has gathered on them after an hour’s exposure on the stand—or, worse still, of the dirty fingers that have handled them.

AN EGG CONTAINER, OPEN AND CLOSED

APPLES IN TWO SMALL BASKETS, FITTED TOGETHER FOR SHIPMENT. INDIVIDUAL APPLES WRAPPED IN TISSUE.

THE PARCEL-POST DINNER. JUST AS IT LEFT THE FARMHOUSE
..but we are still in the early days

Maturity of Online Grocery by Market
The US is approaching an inflection point…

US Online Grocery Market Drivers

- Explosive Growth in Online Grocery
- Improving Availability and Convenience
- Improving Freshness & Quality
- Increased Urbanization
- Connected Consumers
...and winners will reap substantial rewards

U.S. Online Grocery Share 2013-2023

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2018F</th>
<th>2023F</th>
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<tbody>
<tr>
<td>High growth Scenario</td>
<td>0.9%</td>
<td>2.6%</td>
<td>7.5%</td>
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<tr>
<td>Base Scenario</td>
<td>0.7%</td>
<td>1.9%</td>
<td>4.0%</td>
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Opportunities

- Source new growth
- Capture profitable customer segments
- Drive brand and product discovery
- Improve loyalty
- Enhance consumer insights

Source: Progressive Grocer’s Annual Consumer Expenditures Study (CES), A.T. Kearney
A.T. Kearney’s 2014 U.S. Online Grocery Survey

Survey Methodology
Online survey of 2,003 grocery shoppers in June 2014
- All respondents are the primary HH grocery shopper
- 85% female
- 53% married / 30% single
- 27% urban area / 53% suburban / 27% rural
- Representative of the US population as a whole (e.g., income, geography, HH make-up)
70% of US shoppers will consider buying more groceries online

70% of shoppers consider buying groceries online

Shopper Concerns

- Price: 52%
- Availability: 46%
- Freshness & Quality: 45%
- Delivery Fees: 21%

Millennials and higher income consumers are leading the way

Online Grocery Shoppers

- High
  - Income: 10-20% (5-18%)
- Low
  - Income: 4-10% (1-5%)

Growth will occur across categories

A third of consumers are willing to pay for same day delivery

Plans to Increase Purchases

- Other: 8.1%
- Fresh Produce: 12.3%
- Fresh Meat/Seafood: 18.4%
- Beauty / Personal Care: 23.0%
- Household items: 24.6%
- Packaged food: 28.8%

Willingness to Pay

- Home delivery within same day
  - Not interested: 54%
  - Interested if Free: 13%
  - Willing to Pay: 34%
- Pick up in store same day
  - Not interested: 51%
  - Interested if Free: 35%
  - Willing to Pay: 14%
Traditional retailers are focused on three areas...

### Convenience
- In-store payment option
  - Delivery (30+ locations)
  - In-store pickup (11 loc.)
  - Drive-thru (Bentonville)
  - 1-hr delivery windows
  - Order from history – linked to loyalty card

### Speed
- Same-day or next day delivery options
- Crowd-sourcing delivery pilot
- Same-day or next day delivery

### Experience
- In-store maps on mobile apps
- Social media cues inform assortment
- “Personal Shopper" feature can take special requests
- Personalized offers
- Shopping lists and suggestions through app
- In-store interactive touchscreens for transactions and browsing
- Online store has strong search tool, multimedia and favorites list

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**Walmart**

- 195+ pick up points
- Varied assortment online
- Click & collect service
- 7 days a week delivery
- Click & collect service
- 7 days a week delivery
- No minimum spend
- 1 hr. delivery time slots

**SAFEWAY**

- Next day delivery through Peapod
- Next day delivery
- Next day delivery

**Ahold Peapod**

- Next day delivery
- Next day delivery

**TESCO**

- Next day delivery
- Next day delivery

**Sainsbury’s**

- Next day delivery
- Next day delivery
- Next day delivery
...and many players have emerged
### CPGs – Key Success Factors in Online Grocery Shopper Behavior

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<th>What Changes Online?</th>
<th>How CPGs can win</th>
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<td><strong>Merchandising</strong></td>
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<td>Rise of the ‘Endless Aisle’</td>
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**What Changes Online?**
- Ubiquitous price comparisons
- Fewer impulse opportunities
- Fleeting customer loyalty
- Digital vs. physical engagement
- Rise of the ‘Endless Aisle’
- No special display locations or shopper marketing

**How CPGs can win**
- Enable variety
- Drive innovation online
- Optimize digital presence
- Develop online pricing and promotion strategies
- Innovate online specific offering
- Get cost-to-serve right
- Create online impulse drivers
- Engage across digital touchpoints

**How CPGs can win**
Local Online Grocery Evolution

- **Triangle of skills required** – Grocery, Logistics, Internet

- **Life of a basket** – many touches, many influences

- **Format evolution** – local, shared assets
What to do as a CPG manufacturer?

- Where does my product or category fit?

- Digital point of purchase happens at many different times – when, who and how to target

- Successful companies go beyond business as usual to lock in these best customers
  - Bringing new thinking to co-marketing (co-op retargeting, shared database)
  - Leverage digital assets in new ways
  - Shopper marketing test/learn
Infrastructure Free Grocery Ecommerce

Consumers

Instacart
Retailer Marketplace

Grocery Stores

Order Anywhere dedicated site

1 Hour/Same-day Delivery & Pick up

Multiple Local Stores

12 Major US Metros

- Whole Foods Market
- Costco Wholesale
- Fairway Market
- Royal Blue Grocery
- Bianchinis Market
- Market 32
- Jewel-Osco
- Treasure Island Foods
- Uwajimaya
- BJ's Wholesale Club
- B&L Produce
- Plum Market
Ecomm Pain Points & CPG Success Strategies

Quality

“I don’t trust produce picked in a warehouse. I’ll end up with nearly expired or leftover items.”

Speed

“My kids will be home any minute and there’s nothing in the fridge for dinner - looks like it’s take out again”

Choice

“I love walking my grocery stores aisles and discovering new products but just don’t have the time

Ease

“Its so hard to find what I am looking for. Most things don’t even have pictures making it a guessing game as to what I am buying”

Content: Images & Editorial Copy

Convenience: Recipes & Lists

Efficiency: Sampling & Direct Couponing

Impulse: Recommendations
Kraft Foods Group e-Commerce Overview

- Food & Beverage e-Commerce is large, growing and highly incremental to Kraft

- For first time ever, Kraft is building an e-Commerce platform with huge upside and strong customer support:
  1. Establishing a strong base foundation
  2. Driving the base with A+ marketing; harness big data to maximize ROI
  3. Accelerating growth through channel innovation, test-and-learn
  4. Execute with operational excellence to deliver gold standard partnership

- Understanding consumer’s digital path to purchase will position Kraft to capture this highly incremental purchase

- Unlocking key insights to develop personalized/inspiring content will enable Kraft to overcome key barriers
Thank you