KANTAR RETAIL

The Grocery Shopper Journey

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September 2017

Data Source: About the ShopperScape® Survey

Who?

- 4,000 primary household shoppers per month
- Representative sample of ~50,000 unique primary household U.S. shoppers annually; 80:20 female:male ratio

How and When?

- Fielded online the third week of every month
- Survey fielded through LSR access panel

What?

- Monthly and quarterly tracking questions on retailers and venues shopped, products purchased, where spend the most, near-term spending outlook, and household financial health
- New questions each month on timely, topical, and seasonal issues (including key holiday periods) affecting shopping behavior

Coverage

- 200+ retailers across all sectors of retail
- 81+ category groups (e.g., candy/gum, non-carbonated beverages; women's casual clothing)
- 7 major departments (e.g., food/groceries)

Note about Hispanic Shoppers: Hispanic shoppers are the survey respondents who self-identify as being of Spanish, Hispanic or Latino origin or descent; because the ShopperScape® survey is administered only in English, the ShopperScape® sample of Hispanic shoppers should be considered as representative of only acculturated Hispanics.

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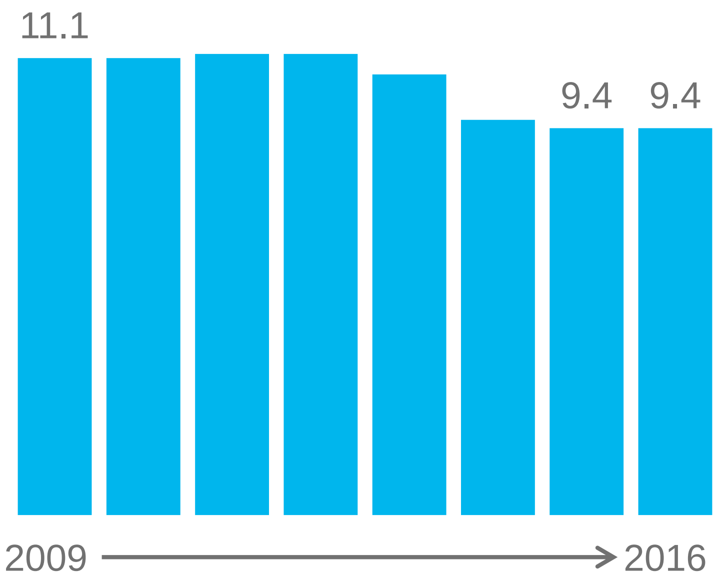
Data Definitions: Shoppers

- Shoppers of retailers are defined as those who shopped the retailer in any past four-week period, unless otherwise noted
- Retailers indicate individual banners (i.e., ‘Safeway’ indicates those who have shopped the Safeway banner, not including other Albertsons/Safeway banners, such as Randall’s or Vons), unless otherwise noted

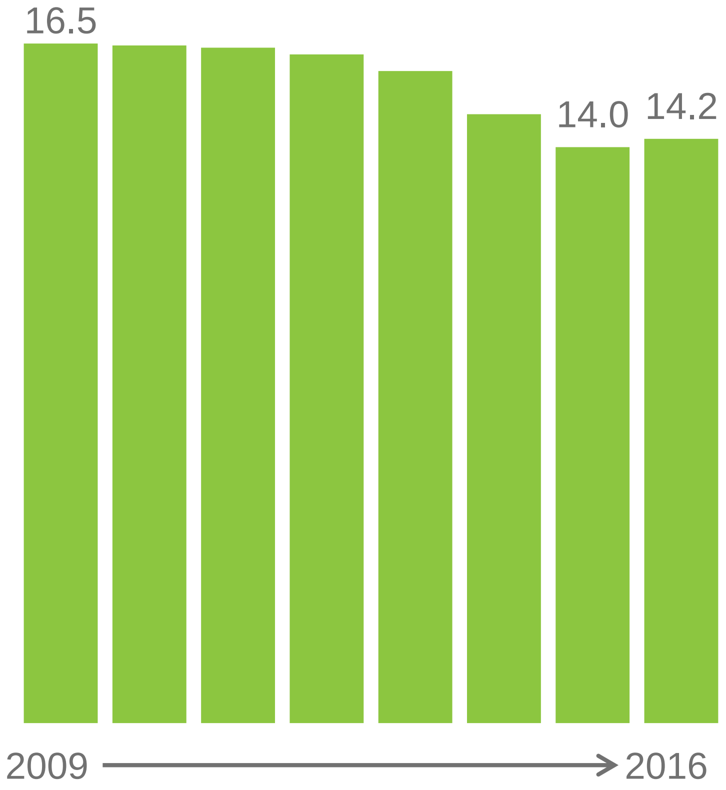
Shoppers and Shopping Behavior Today: Overall Context

Retailer Rationalization Stalls, Category Contraction Eases, Spending Sentiment Continues to Improve

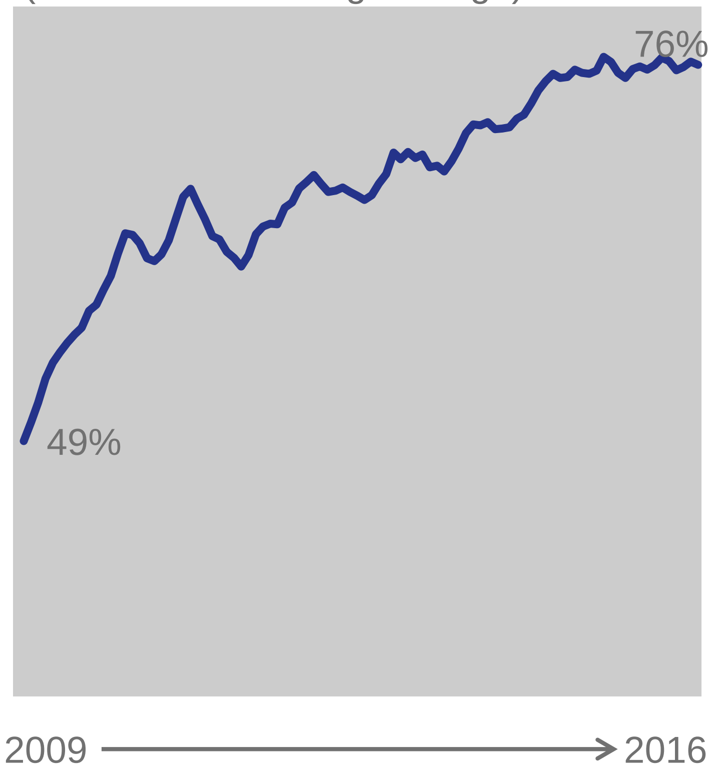
Average Number of Retailers Shopped in Past Four Weeks
(Q1-Q3 of each year*)



Average Number of Categories Purchased in Past Four Weeks



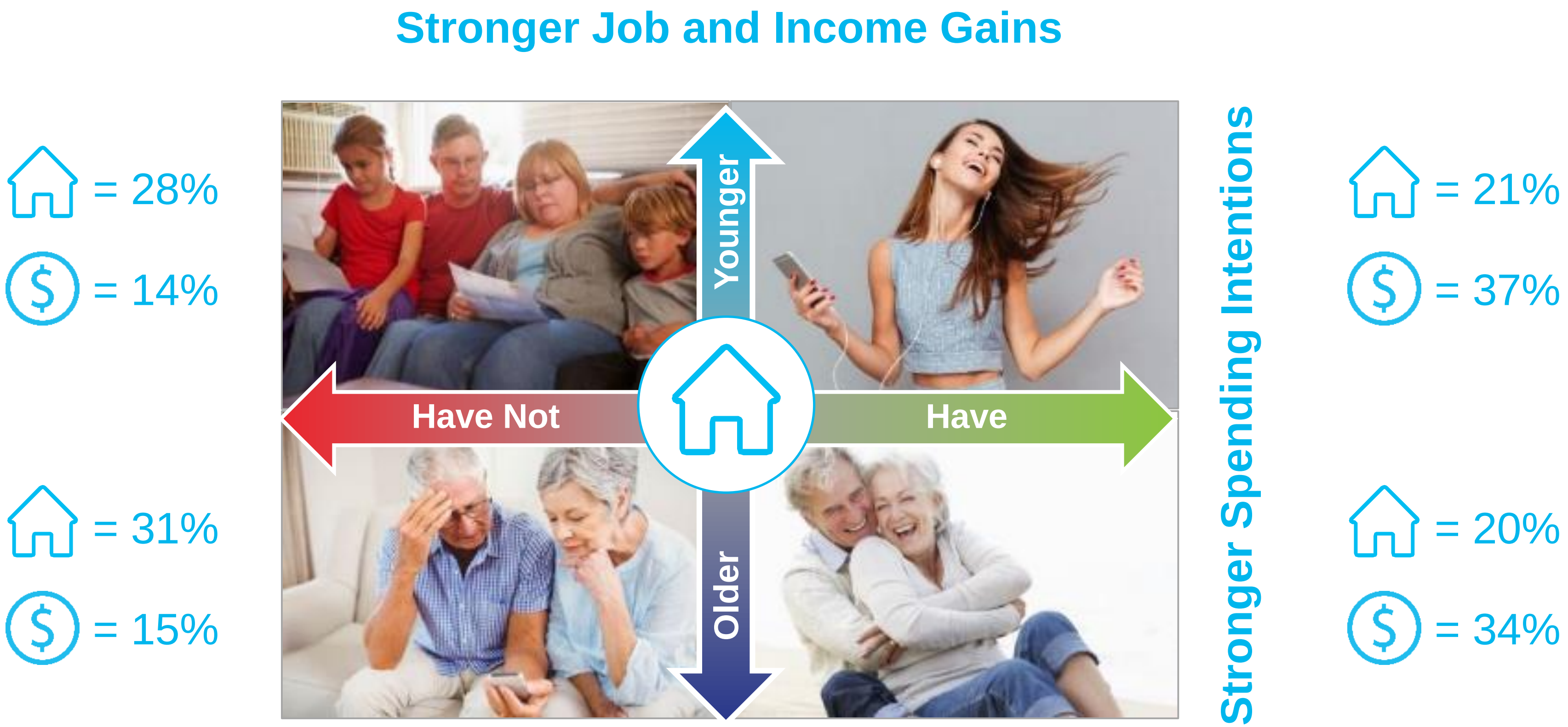
Percent Planning to Spend Same/More at Retail vs. YA
(three-month moving average)



Source: Kantar Retail ShopperScape®, January 2007-December 2016

Fractured Shopper Base Will Persist …

Four groups that exist in separate retail, media, and geographic spheres



Note: Older households 50 years old or older, Younger households 49 years old or younger; Have Nots: <$60K, Haves $60K+

Understanding Nuances of Western Regions Will Make a Difference

Key differences present in race/ethnicity and income

Demographic Profile of Shoppers

		All Shoppers	Midwest Shoppers	West South Central Shoppers	West Shoppers
Annual HH Income	<$25K	24%	23%	27% ↑	23%
	$25K–$49.9K	24%	25% ↑	27% ↑	23% ↓
	$50K–$74.9K	17%	18% ↑	17%	17%
	$75K–$99.9K	12%	12%	11% ↓	12%
	$100+	24%	21% ↓	20% ↓	24%
Race/ Ethnicity	White Non-Hispanic	71%	82% ↑	58% ↓	67% ↓
	Black Non-Hispanic	12%	10% ↓	15% ↑	7% ↓
	Hispanic	13%	6% ↓	23% ↑	19% ↑
	Asian	3%	2% ↓	3%	6% ↑
Children in Home	HH with Kids	25%	26%	26%	24% ↓
	No Children	75%	74%	74%	77% ↑

Note: Arrows indicate significant difference vs. all shoppers (95% confidence level)

Grocery Shopping in the West

Where Are People Shopping throughout the West Coast?

More likely to shop at *select* FMCG retailers; supermarkets more regional

Top Five Mass/Club/Discount/Drug Retailers Shopped by Region

Midwest	West South Central	West
Walgreens	Walgreens	COSTCO WHOLESALE
	DOLLAR GENERAL	Walgreens
DOLLAR GENERAL		

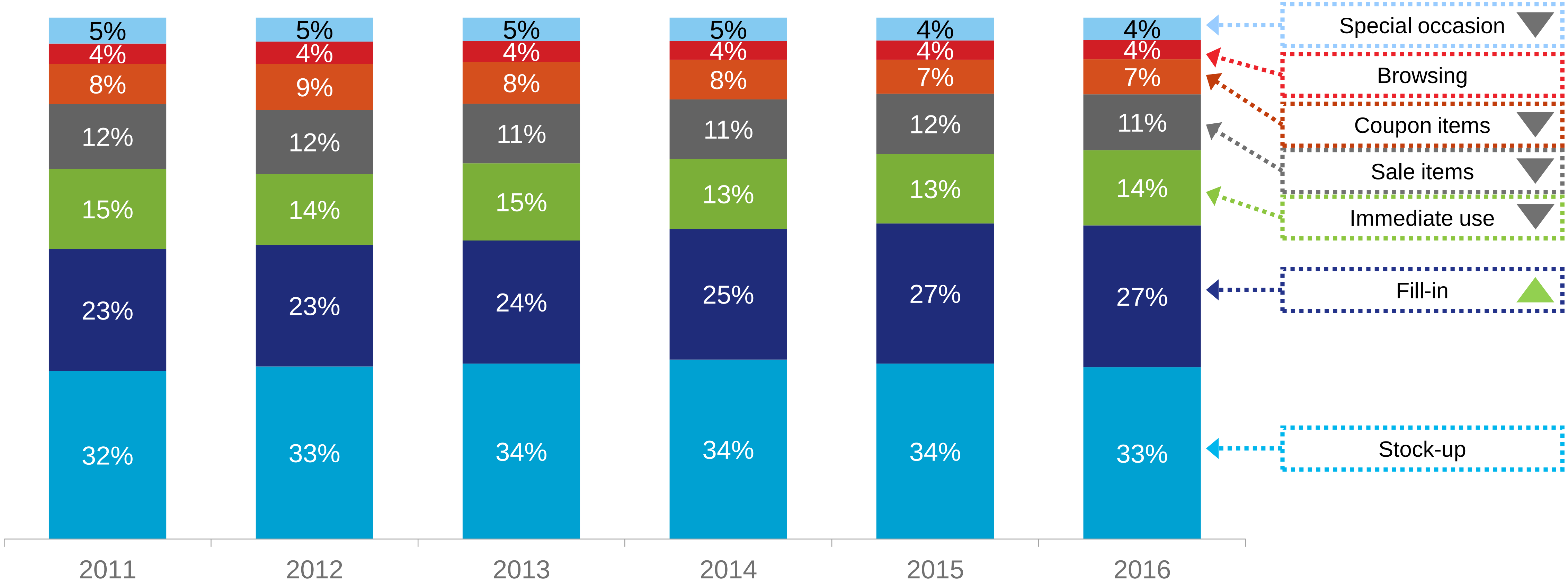
Top Five Supermarket Retailers Shopped by Region

Midwest	West South Central	West
ALDI	H-E-B	SAFEWAY
Kroger	Kroger	TRADER JOE'S
HyVee EMPLOYEE OWNED	Walmart Neighborhood Market	Albertsons
Jewel Osco	ALDI	SPROUTS FARMERS MARKET
TRADER JOE'S	SPROUTS FARMERS MARKET	WinCo FOODS

Source: Kantar Retail ShopperScape®, August 2016 –July 2017

Other Fracture Points: Fill-In Trips Increase at Expense Of Other Trips

Primary Reason for Last Grocery/HH Essentials/HBC Trip
(most recent trip to any mass/club/discount/drug/supermarket retailer to buy groceries/HH essentials/HBC products)



Note: Arrows indicate significant difference between 2011 and 2016 year to date (95% confidence level)

Trip Missions Vary Greatly at Western Grocers

H-E-B wins big trips, shoppers cherry pick Ralph's for fill-in, Meijer and Safeway draw shoppers through sales

Primary Reason for Last Grocery Trip, by Retailer Shopped on Trip

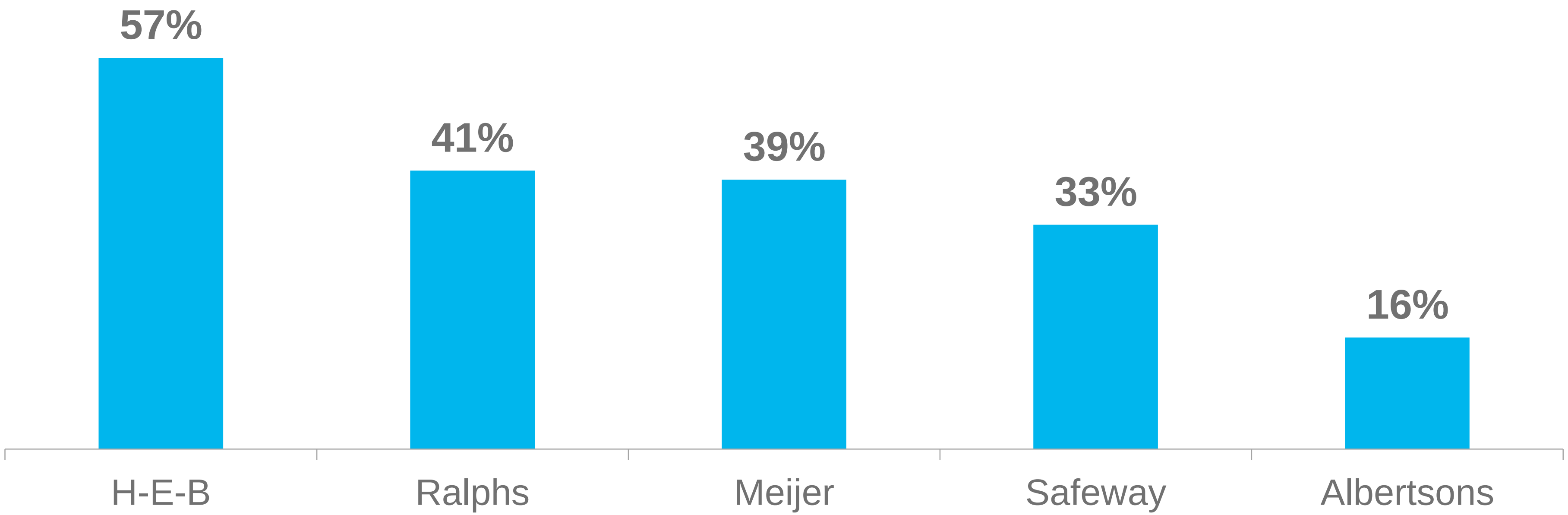
	All Store Types	Meijer	Ralph's	Albertsons	Safeway	H-E-B
Stock-up trip	33%	38%	27%	**22%**	**27%**	**47%**
Fill-in trip	27%	**20%**	**35%**	25%	25%	25%
Immediate use	14%	**9%**	**7%**	18%	**23%**	13%
Specific sale items	11%	**19%**	14%	17%	**16%**	**3%**
Specific coupons	7%	8%	9%	10%	6%	**4%**
Special occasion	4%	4%	4%	7%	**2%**	5%
Browsing/new items	4%	3%	4%	1%	**2%**	3%

H-E-B Earns Shopper Loyalty

Nearly six in 10 H-E-B shoppers spend the most on groceries there

Food and Grocery Capture Rates

(share of retailers' past four-week shoppers that report spending the most on food and groceries there)



Other most frequently cited store of preference	WMSC: 15%	Costco: 9%	Kroger: 20%	WMSC: 10%	WMSC: 20%

Shoppers Have Different Store-Choice Priorities

Winning for the right reasons means true differentiation; H-E-B differentiates through fresh

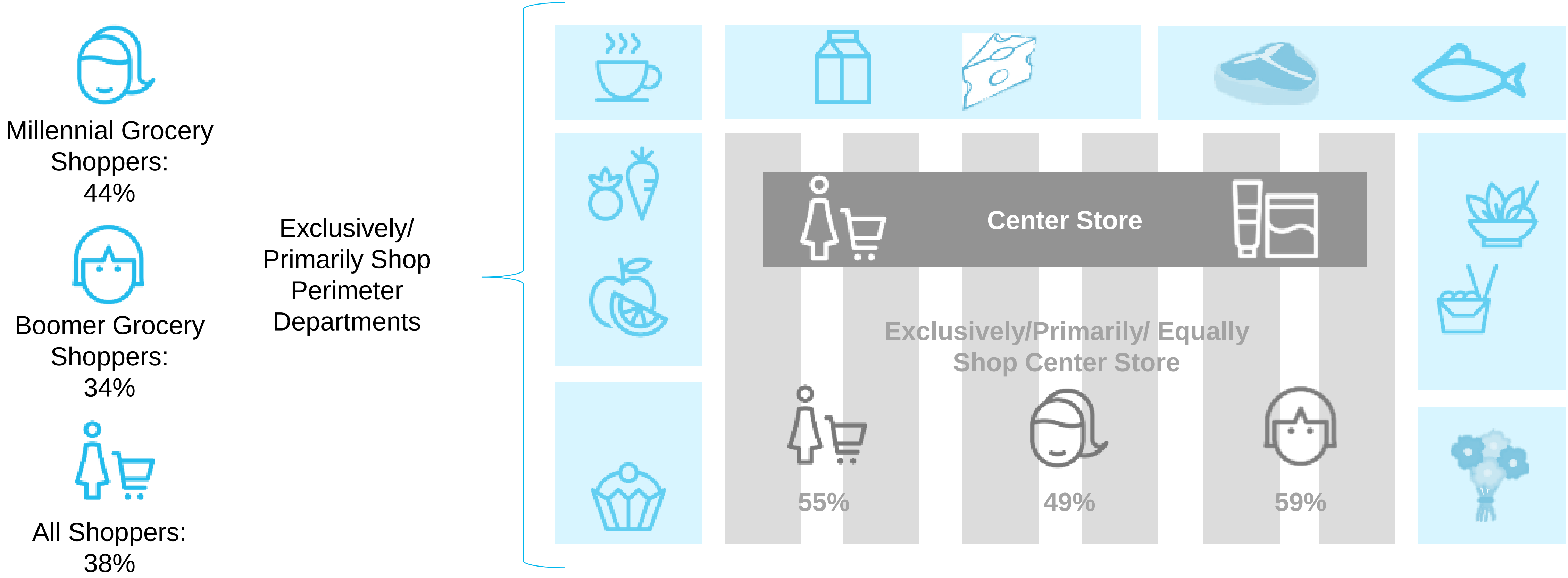
Top Three Reasons for Choosing Retailer as Preferred Grocery Store

Meijer	Ralph's	Albertsons	Safeway	H-E-B
1) Convenient location (54%) 2) Lower everyday prices (45%) 3) Better sales/ promotions (37%)	1) Convenient location (75%) 2) Lower everyday prices (39%) 3) Better sales/ promotions (29%)	1) Convenient location (81%) 2) Lower everyday prices (26%) 3) Better sales/ promotions (23%)	1) Convenient location (73%) 2) Better sales/ promotions (35%) 3) Frequent shopper/ rewards program (23%)	1) Convenient location (63%) 2) Lower everyday prices (54%) 3) Higher quality fresh (36%)

Center Store Is Still a Destination for Boomers, Less So for Millennials

Millennials' demands for natural/organic and prepared foods draws them towards the perimeter

How Shoppers Typically Shop the Supermarket



Source: Kantar Retail ShopperScape®, February 2017

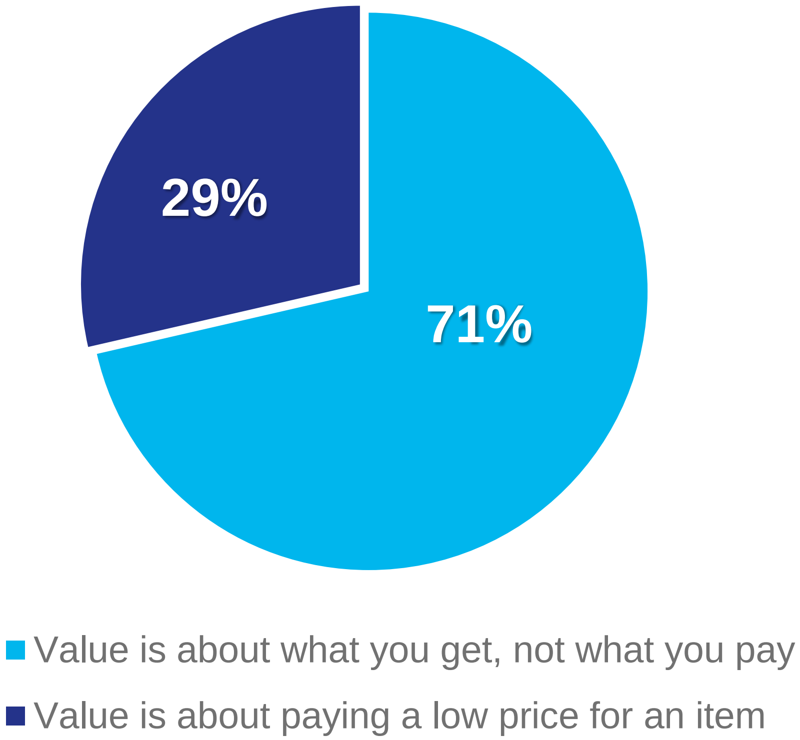
The Value / Price Conversation ...

Shoppers Agree Value Is More Than Just Price

But price is uniquely central to the grocery value proposition

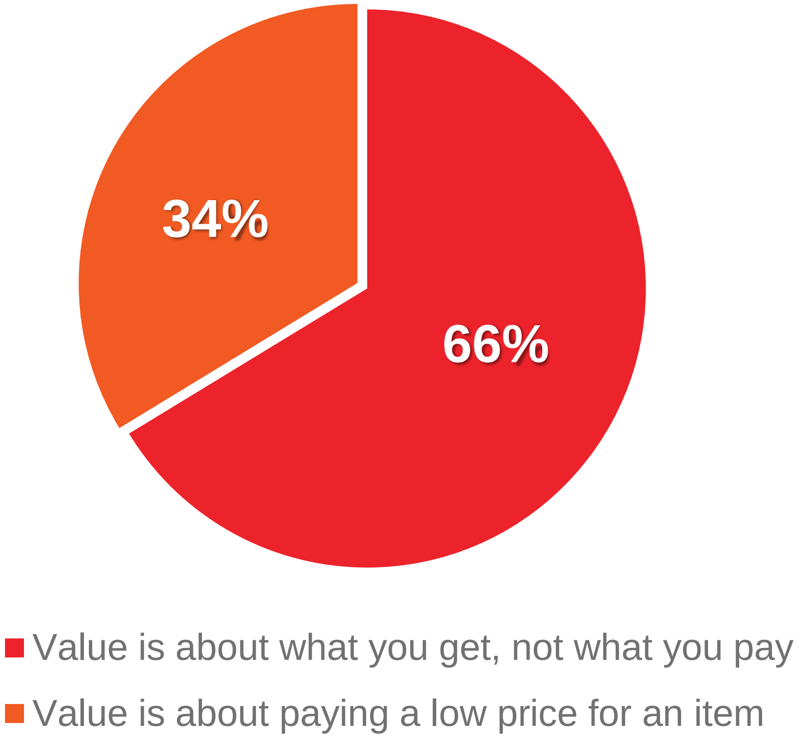
How Shoppers Define Value When Shopping in General

(% of shoppers agree with each statement)



How Shoppers Define Value When Shopping for Groceries

(% of shoppers agree with each statement)



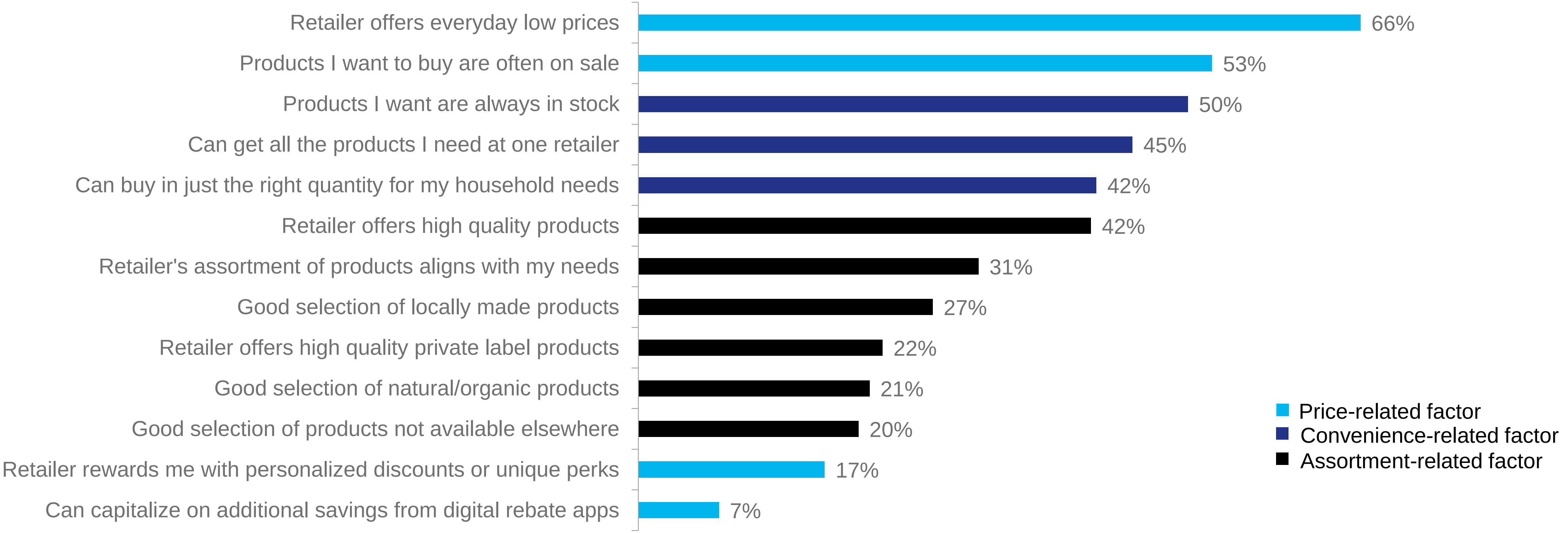
Source: Kantar Retail ShopperScape®, May and July 2017

When Grocery Shopping, Price and Convenience Overshadow Assortment

Specialty assortment however can't be ignored: 27% of shoppers recognize importance of local, 21% of organic

Defining Value When Grocery Shopping

(% of shoppers rank factor as important for non-perishable, fresh foods, HH cleaning/paper products, or HBC)



Source: Kantar Retail ShopperScape®, November 2016

Assortment Is Especially Important to West South Central Shoppers, Sales Less So

Defining Value When Grocery Shopping

(% of shoppers rank factor as important for non-perishable, fresh foods, HH cleaning/paper products, or HBC)

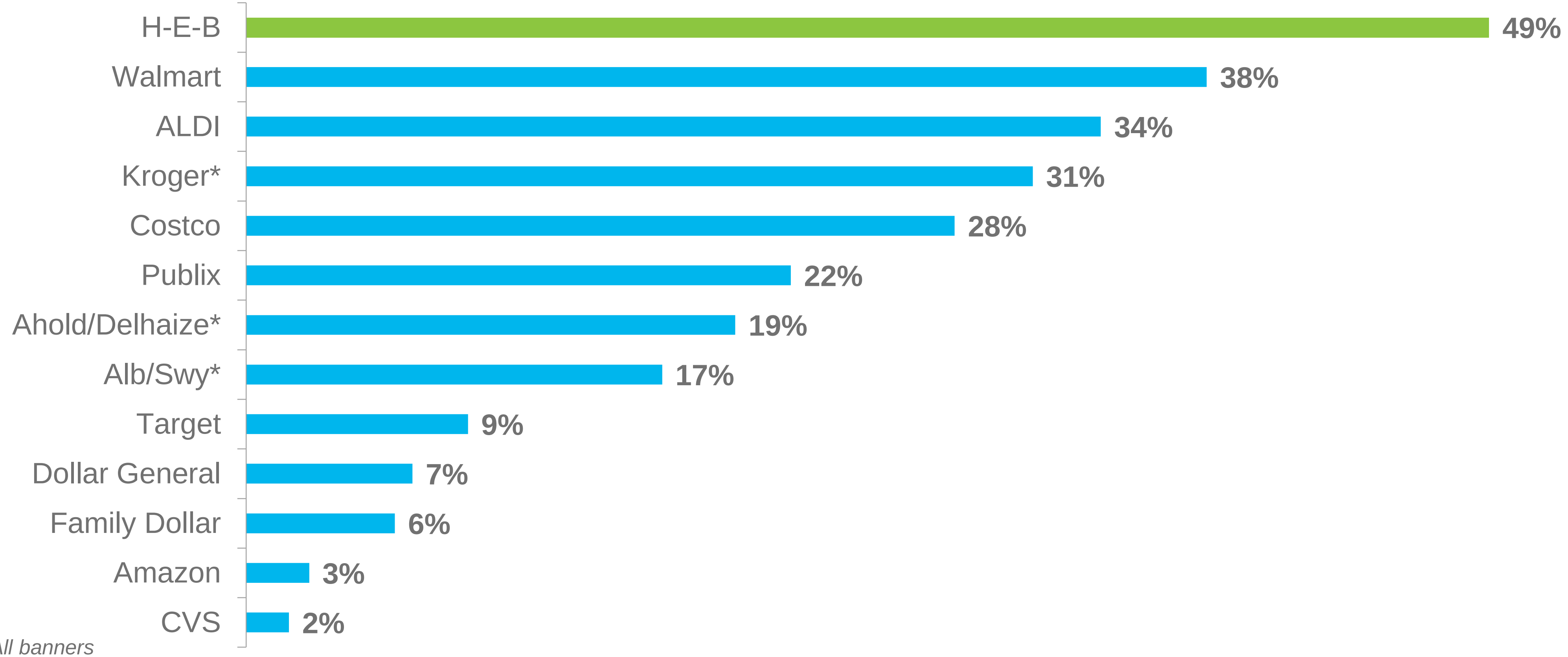
		Indexed vs. All Shoppers		
	All Shoppers	Midwest Shoppers	West South Central Shoppers	West Shoppers
Everyday low prices	66%	99	105	99
Products I want to buy are often on sale	53%	102	86	98
Products I want are always in stock	50%	98	100	98
Can get all the products I need at one retailer	45%	100	106	96
Can buy in just the right quantity	42%	94	105	92
Retailer offers high quality products	42%	96	103	97
Retailer's assortment aligns with my needs	31%	93	118	98
Good selection of locally made products	27%	99	94	98

Source: Kantar Retail ShopperScape®, November 2016

H-E-B Dominates Value in Non-Perishables

Convincing nearly half of its shoppers that H-E-B is best for the category

Share of P4W Shoppers Who Perceive Retailer as Best Value for Non-Perishable Foods

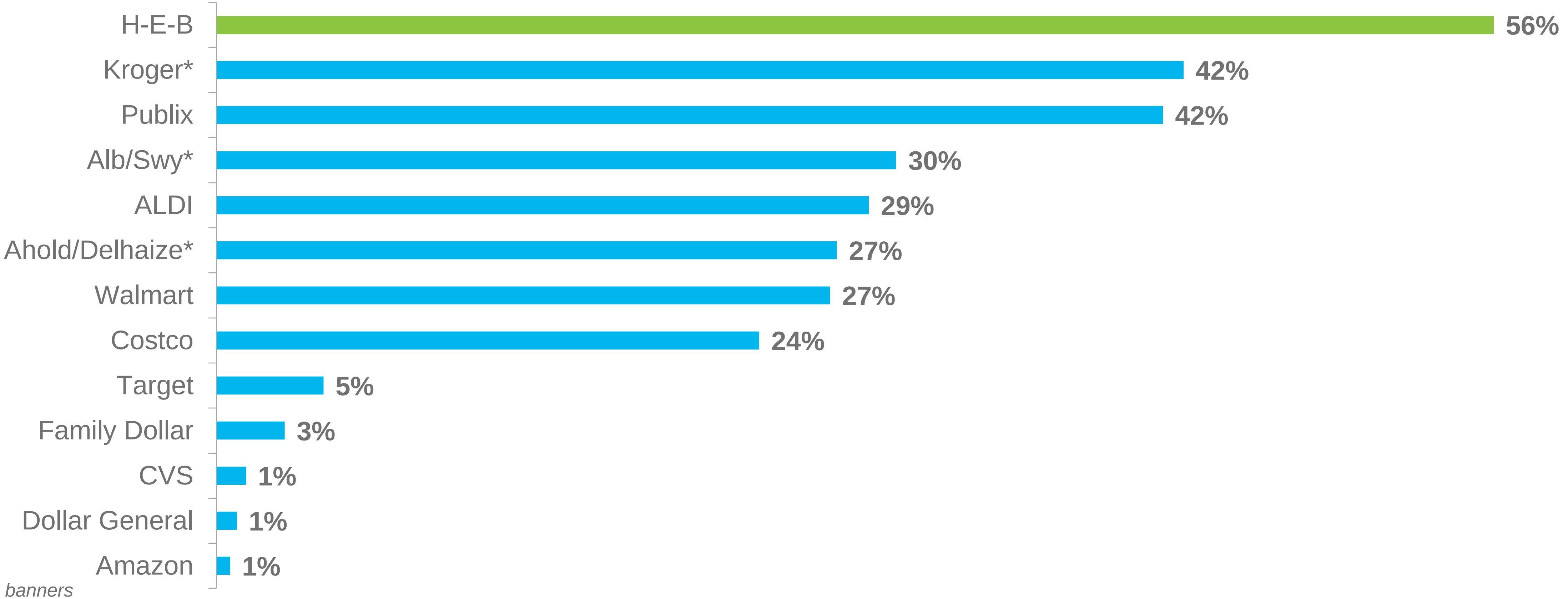


*All banners

H-E-B's Perceived Value Amplified Even More So in Fresh

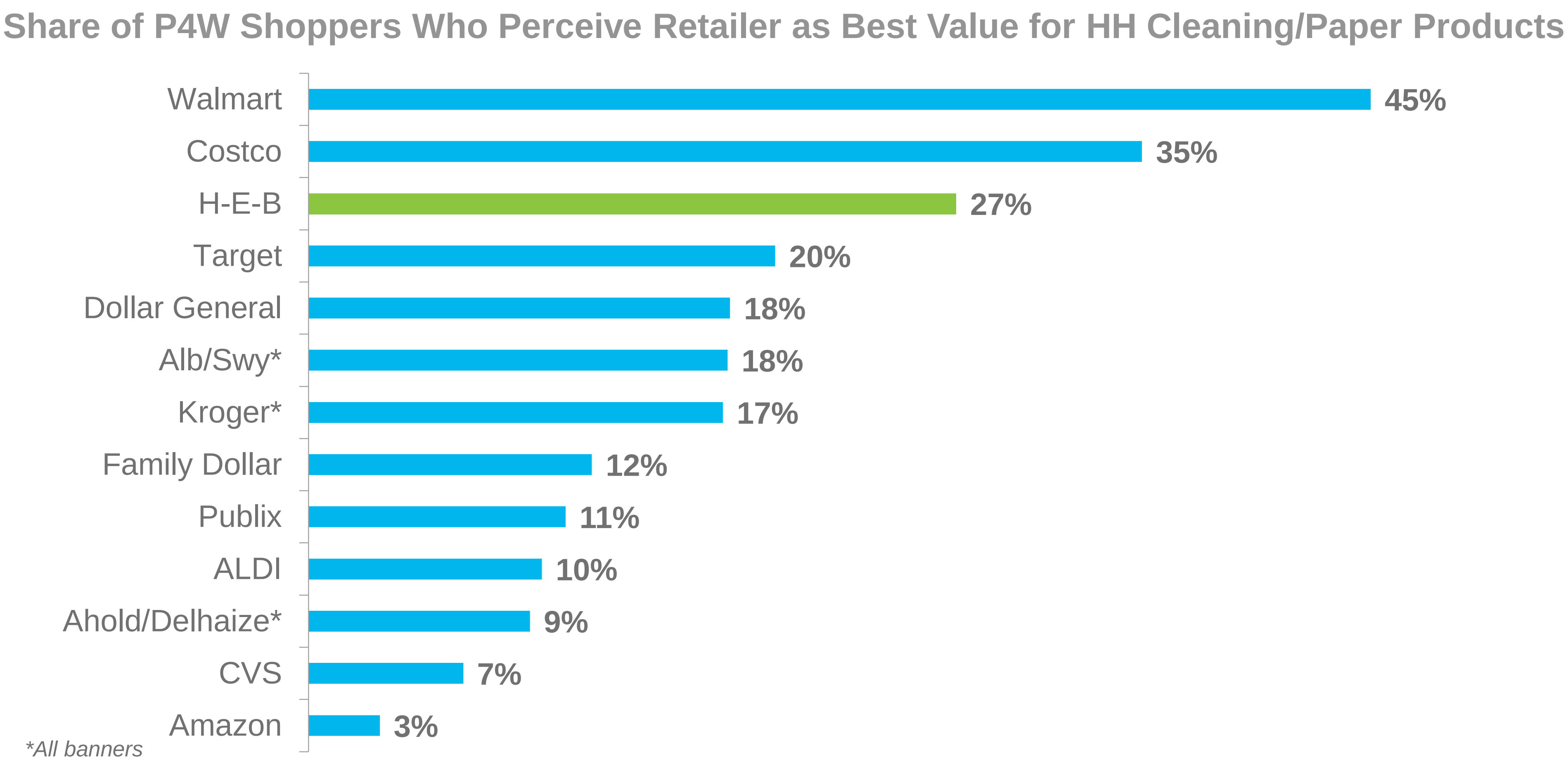
H-E-B demonstrates clear expertise in fresh

Share of P4W Shoppers Who Perceive Retailer as Best Value for Fresh Foods



**All banners*

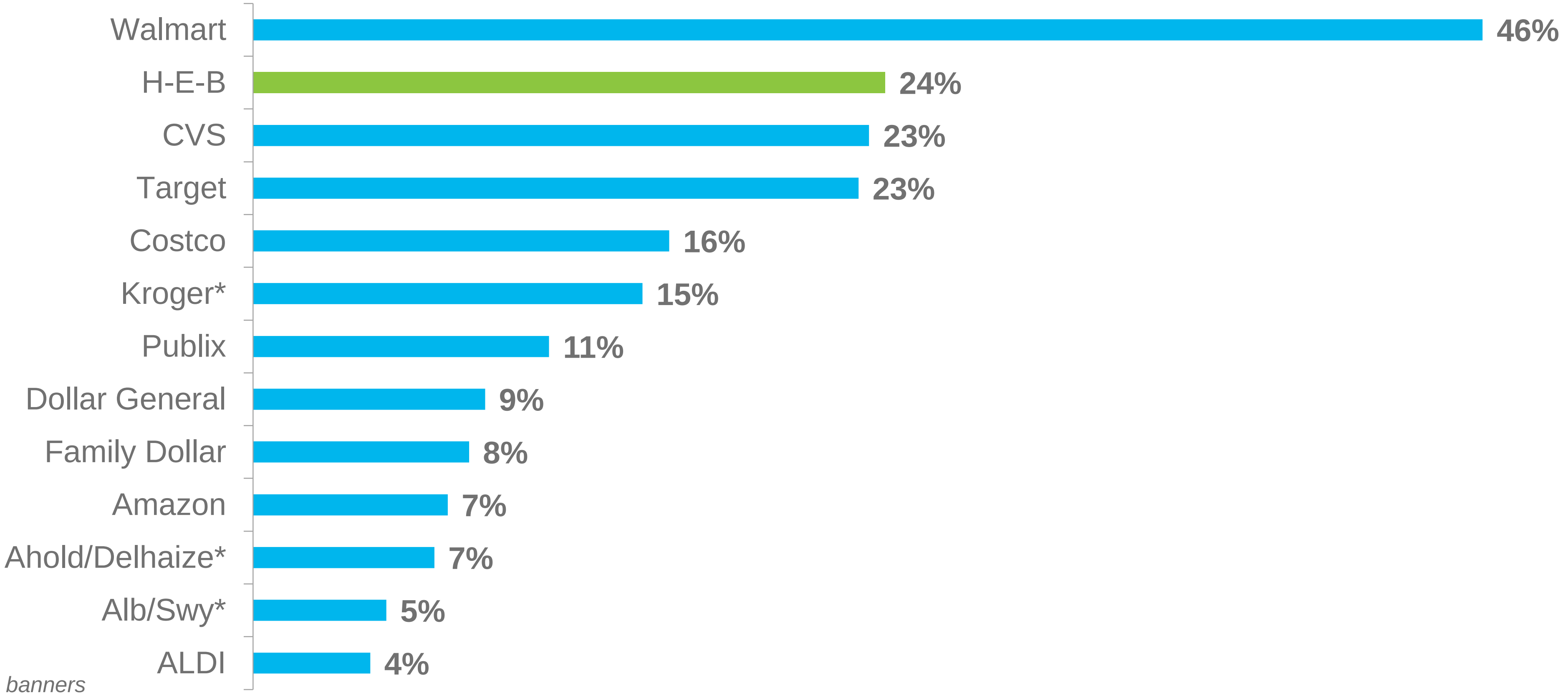
Walmart Wins 'Best Value' for Household Cleaning/Paper Products, Yet H-E-B Leads Among Supermarkets



Source: Kantar Retail ShopperScape®, November 2016

Walmart Is Clear Leader for HBC, But H-E-B Follows Next

Share of P4W Shoppers Perceive Retailer as Best Value for HBC Products



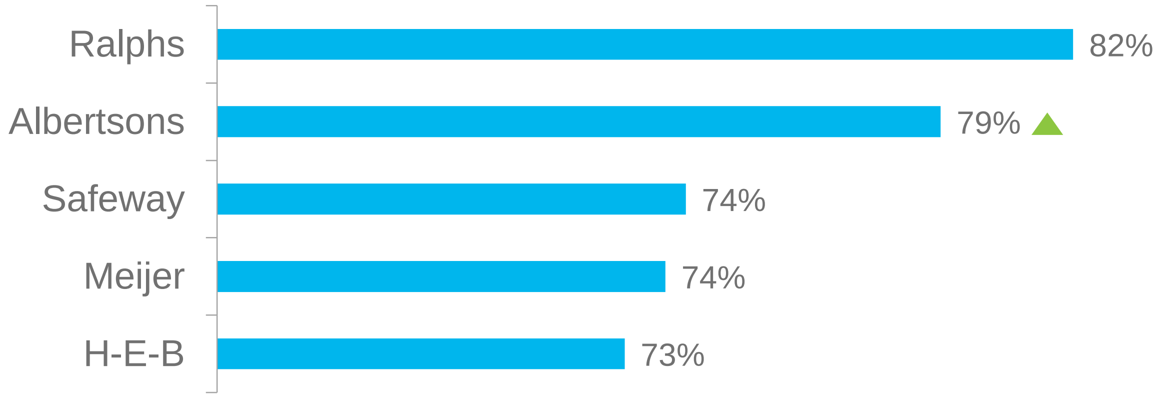
*All banners

Topics and Trends in Grocery Retailing Today

Shoppers Are Noticing More Private Label and Feeling Empowered

Attitudes Toward Private Label
(share of shoppers who strongly/somewhat agree with each statement)

Share of shoppers who say,
"there are a lot more options for buying private label now vs. before"



Share of shoppers who say,
"buying private label products makes me feel like a smart shopper"

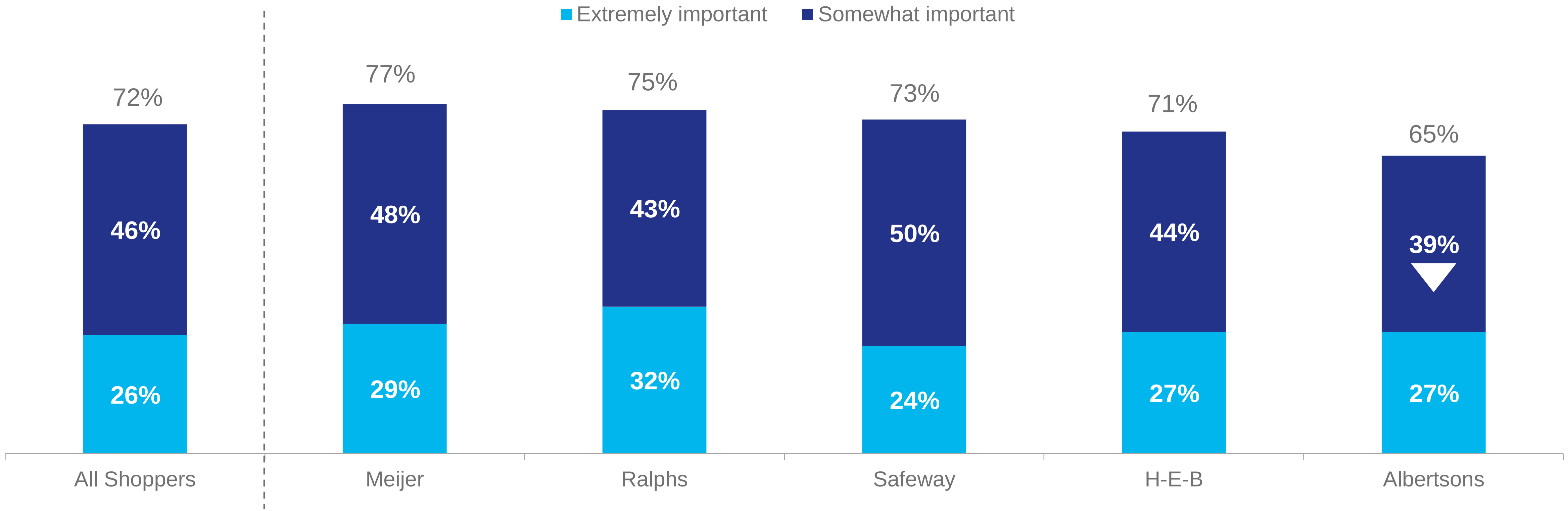
Caution, small sample size for Ralph's, no stat testing done
Note: Arrows indicate significant difference vs. all shoppers (95% confidence level)

Private Label Demand Differs Across the Western Grocers

Meijer and Ralphs shoppers place the greatest importance on private label, while Albertsons shoppers the least

Importance of Private Label at Retailer, According to Shoppers

(share of retailers' shoppers who say 'good private label is extremely/somewhat important' to retailer satisfaction)

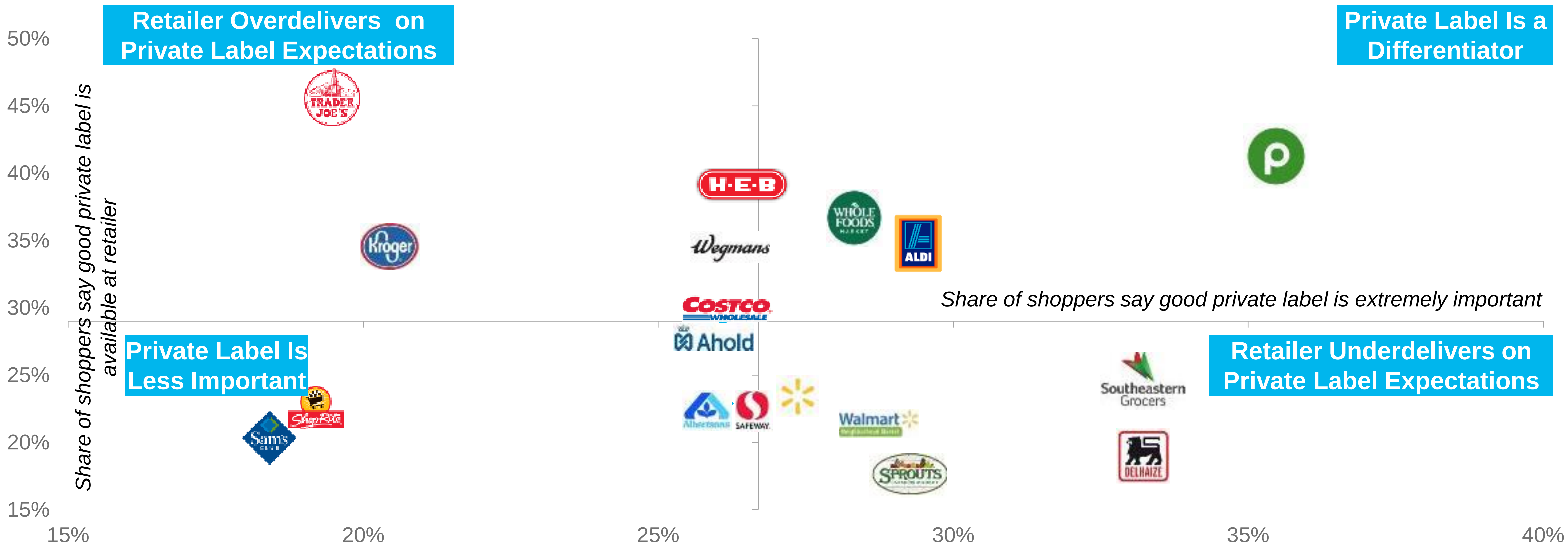


Caution, small sample size for Ralph's, no stat testing done
Note: Arrows indicate significant difference vs. all shoppers (95% confidence level)

Where Private Label Matters Most and Where National Brands Have Greater Opportunities

Performance Gap: Private Label

(share of retailers' shoppers who say 'good private label is available at retailer' minus share say 'good private label is extremely important')



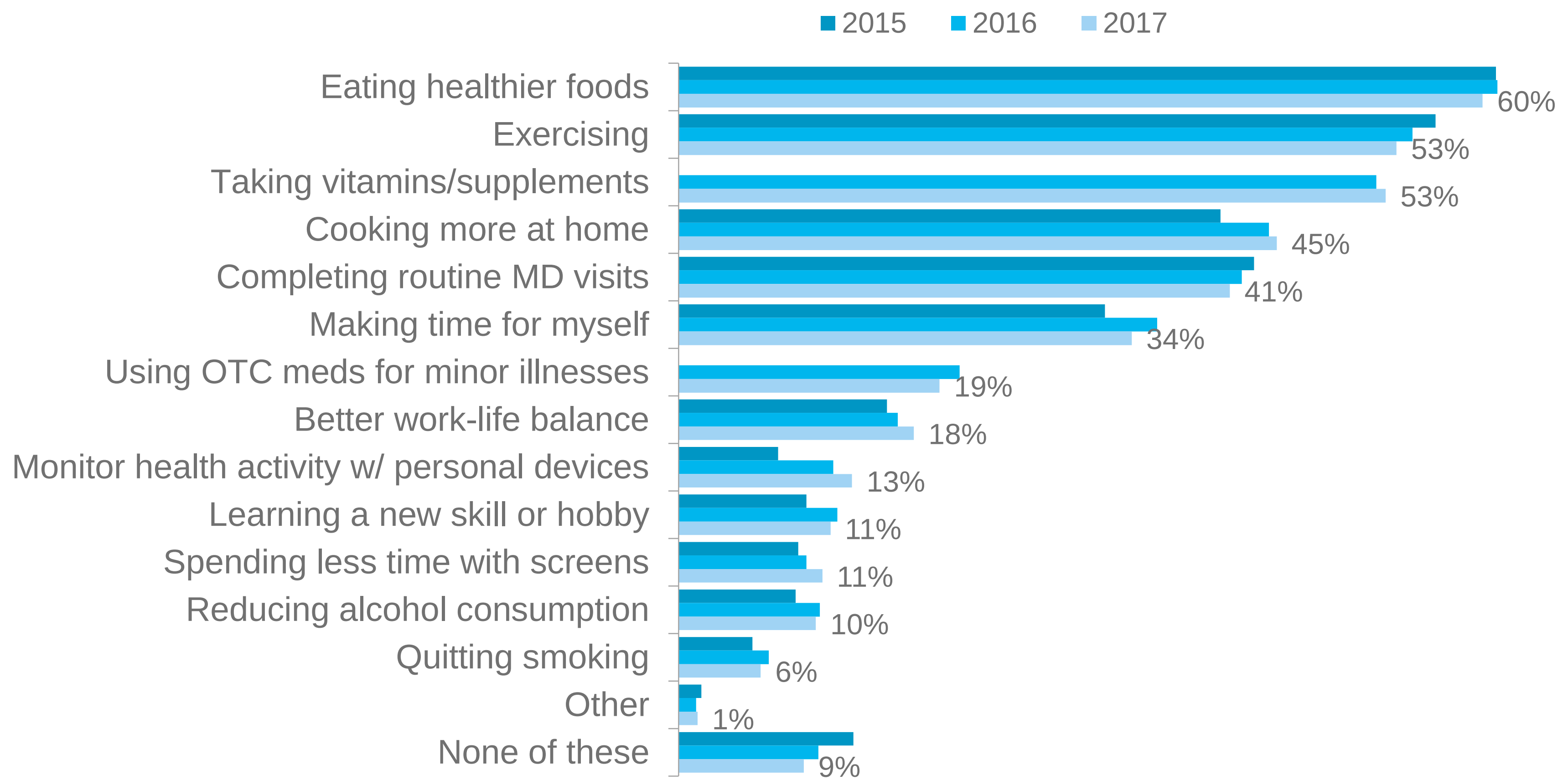
Note: Small sample sizes for Southeastern Grocers, Delhaize, Sprouts, ShopRite, and Wegmans

Source: Kantar Retail ShopperScape®, February 2017

Eating Healthier Foods Is the Most Elementary Path to Health and Wellness

Within grocery channel, other elements matter too

Ways in Which Shoppers Approach Health & Wellness



91%

of shoppers are engaged in health & wellness activity

Grocery Shoppers Prioritize Various Approaches to Health & Wellness

Ways in Which Shoppers Approach Health & Wellness

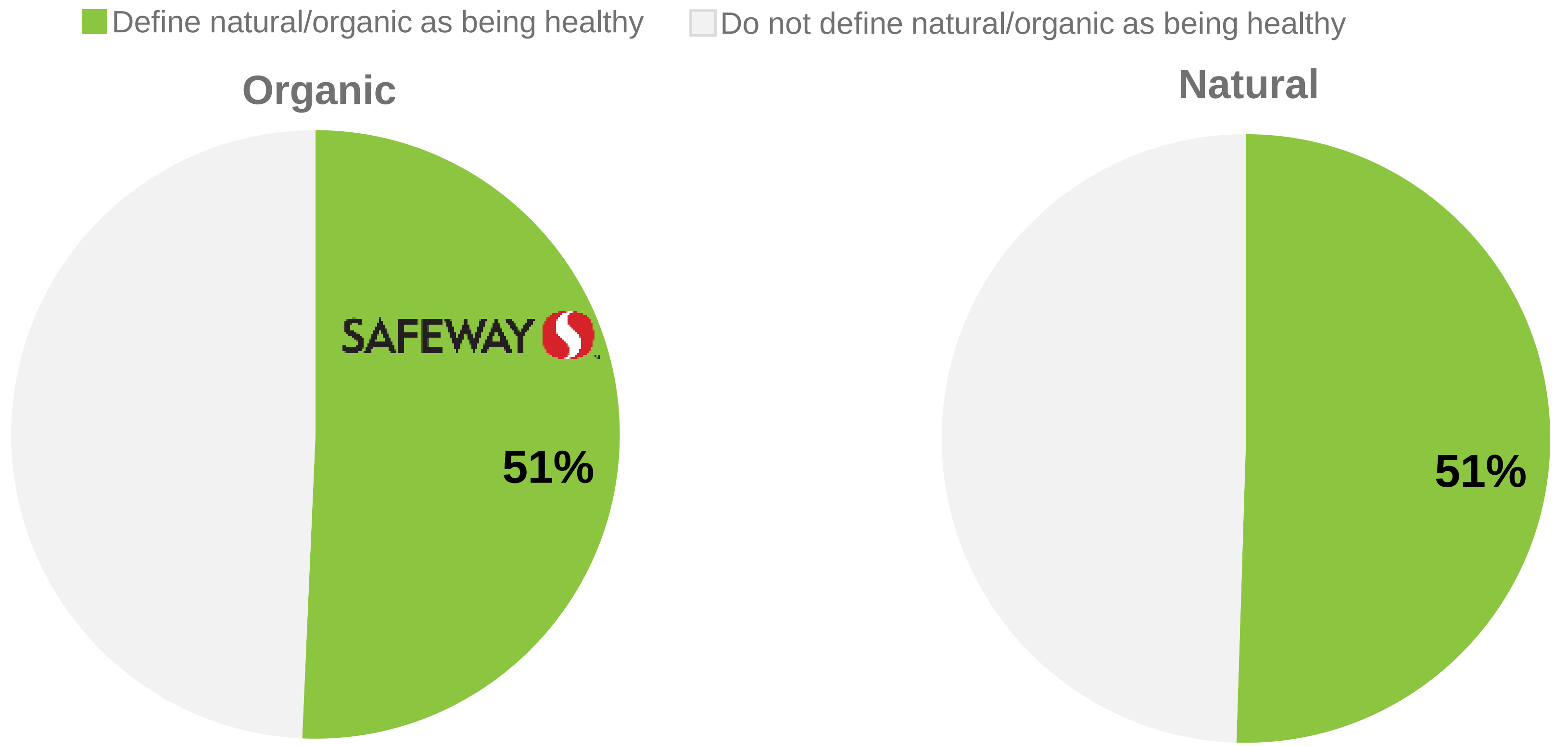
	All Shoppers	Meijer	Ralph's	Albertsons	Safeway	H-E-B
Eating healthier foods	60%	101	104	101	108	110
Exercising	53%	103	119	115	109	101
Taking vitamins/supplements	53%	103	103	108	103	91
Cooking more at home	45%	95	92	107	113	106
Completing routine MD visits	41%	103	93	104	116	96
Making time for myself	34%	106	85	110	95	96

Natural/Organic Is Key in Health & Wellness Conversation

Shoppers associate natural and organic with being healthy

Share of Shoppers Link Natural/Organic with Health

(share of retailers' shoppers define natural or organic as being 'healthy/good for me')

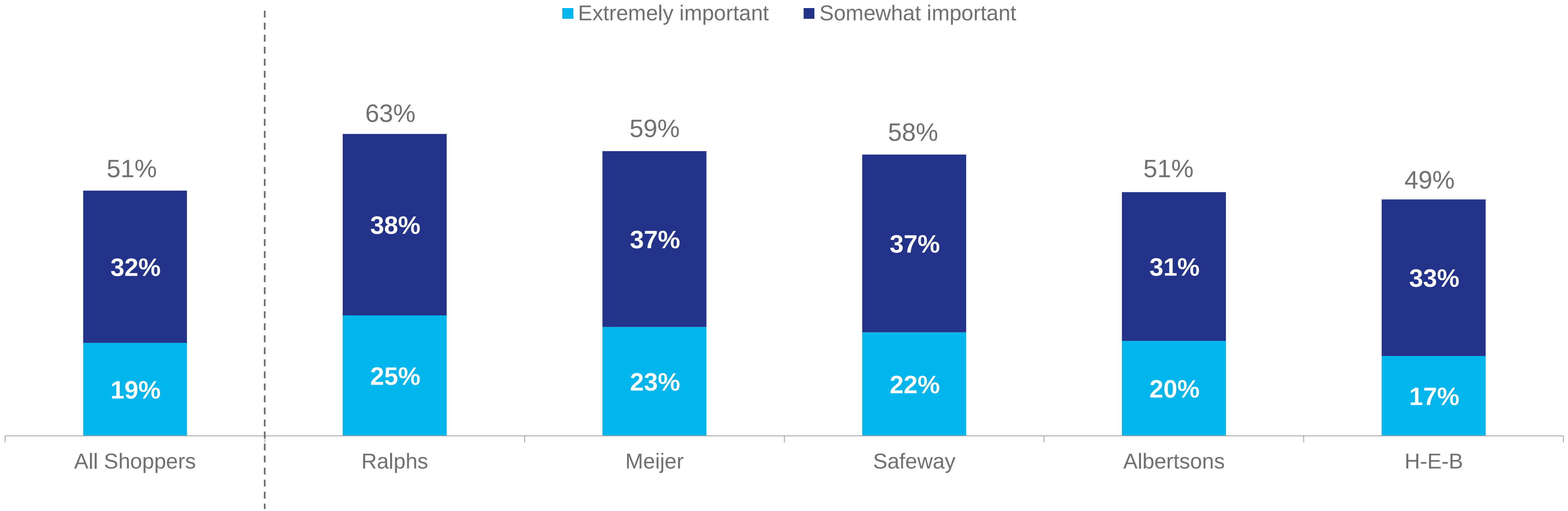


Note: Logos indicate retailer shoppers are significantly more likely to choose answer option vs. all shoppers (95% confidence level) e.g., Safeway shoppers are significantly more likely to define organic as being healthy

Natural/Organic Assortment Will Be Necessary at Key Western Accounts

Importance of Natural/Organic at Retailer, According to Shoppers

(share of retailers' shoppers say 'wide assortment of natural/organic is extremely/somewhat important' to retailer satisfaction)

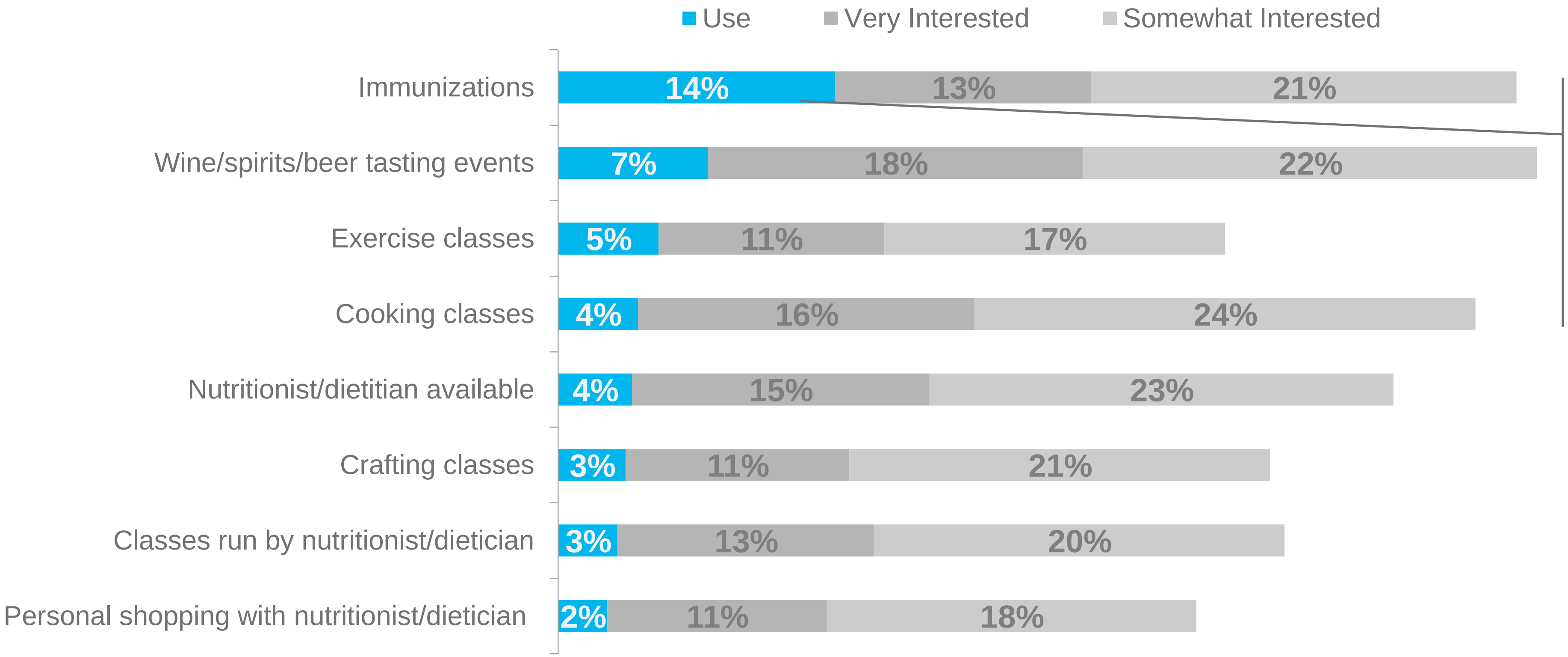


Caution, small sample size for Ralph's, no stat testing done
Note: Arrows indicate significant difference vs. all shoppers (95% confidence level)

Source: Kantar Retail ShopperScape®, February 2017

In-Store Services Are Just Beginning, Shopper Interest Shows the Long-Term Potential

Use and Interest of In-Store Services
(among all primary household shoppers; use and interest in service at any retailer)



	Use	Very Interested	Somewhat Interested
Immunizations	14%	13%	21%
Wine/spirits/beer tasting events	7%	18%	22%
Exercise classes	5%	11%	17%
Cooking classes	4%	16%	24%
Nutritionist/dietitian available	4%	15%	23%
Crafting classes	3%	11%	21%
Classes run by nutritionist/dietician	3%	13%	20%
Personal shopping with nutritionist/dietician	2%	11%	18%

Albertsons and Safeway shoppers are significantly more likely to already be using immunization services in store: two in 10 shoppers use the service.

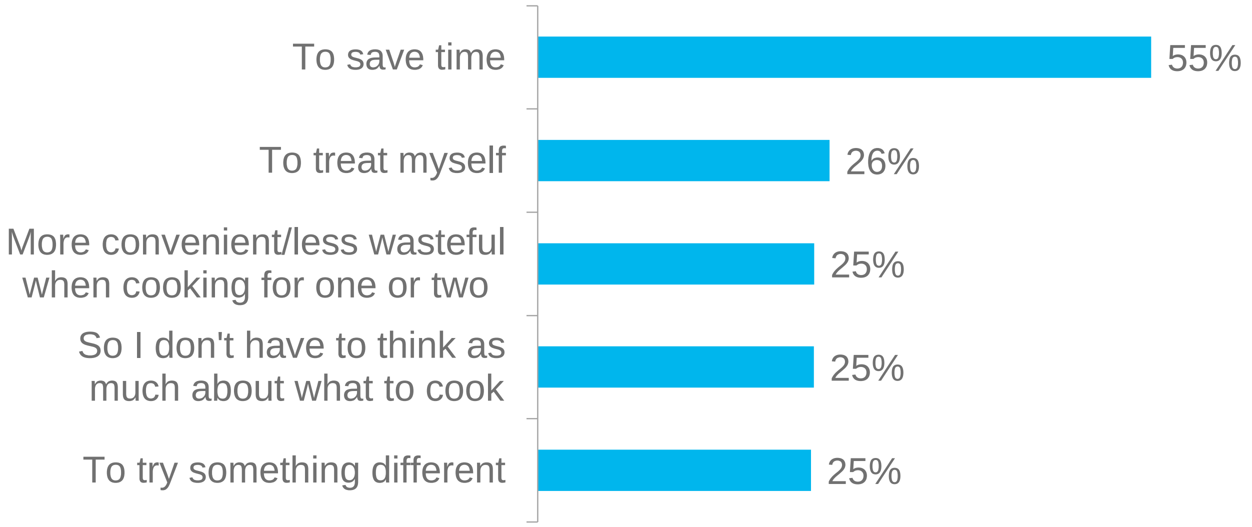
Source: Kantar Retail ShopperScape®, February 2017

Prepared Foods, the Cornerstone Service at Grocery, Appeals to Shoppers' Changing Notion of Value

Prepared foods offers a holistic value proposition, saving shoppers time and providing a stress-free experience

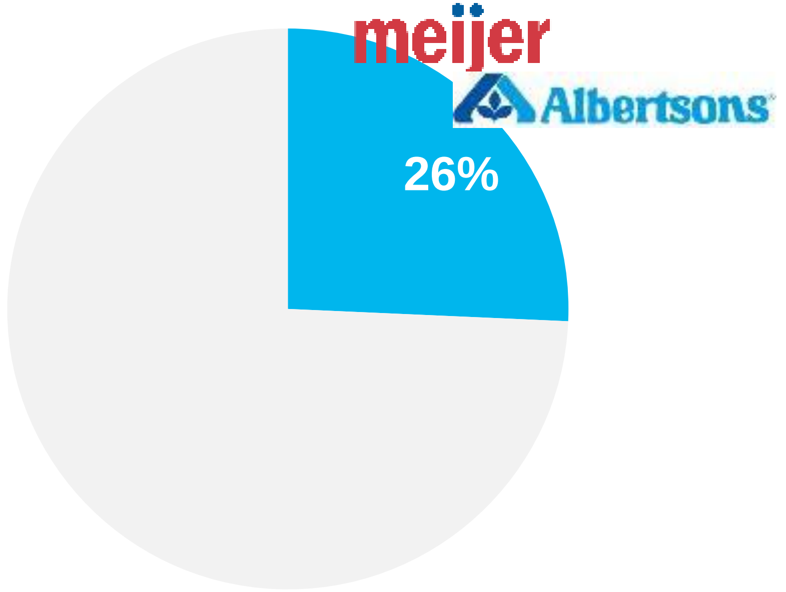
Top Five Reasons for Buying Prepared Foods

(share of prepared foods buyers that say factor is among top three reasons)



Restraint of Time

(share of shoppers say they'd like to cook more at home, but they don't have the time)

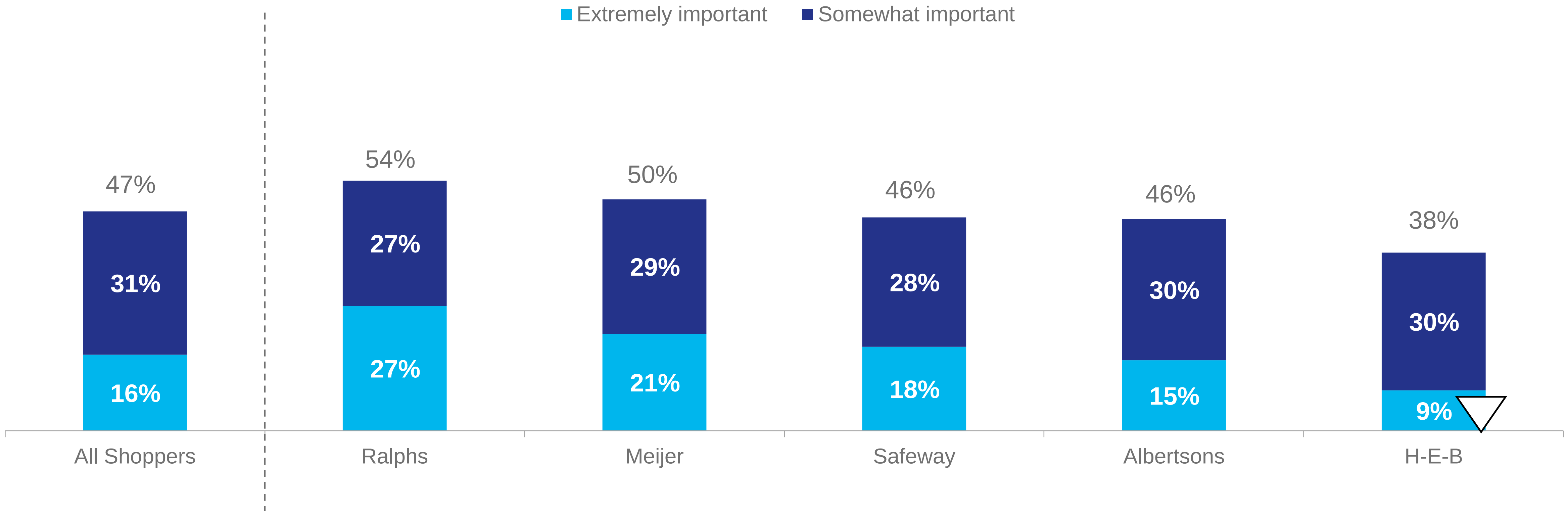


Note: Logos indicate retailer shoppers are significantly more likely to strongly/somewhat agree with statement vs. all shoppers (95% confidence level)

Prepared Foods Most Important to Ralph's Shoppers; Least Important to H-E-B

Importance of Prepared Foods at Retailer, According to Shoppers

(share of retailers' shoppers say 'good prepared foods are extremely/somewhat important' to retailer satisfaction)



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Note: Arrows indicate significant difference vs. all shoppers (95% confidence level)

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Source: Kantar Retail ShopperScape®, February 2017

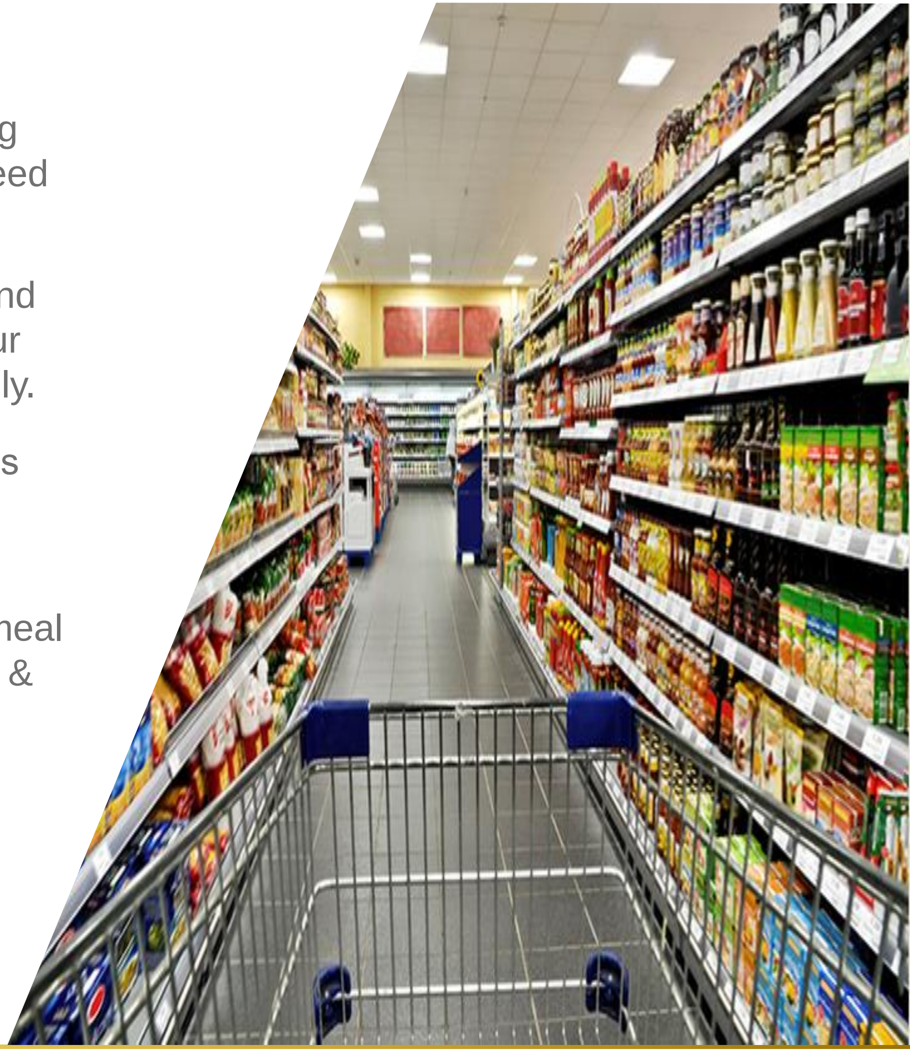
Actionable Insights

Identify the real competitive landscape: Looking at channels in isolation has become a losing strategy. Shoppers purchase in a channel-less environment, and manufacturers and retailers need to adapt strategies to compete more effectively without boundaries.

Understand how your shoppers define value: Price remains the go-to strategy for retailers and manufacturers to drive traffic in-store, yet shoppers are demanding more. Determine where your categories/brands fit in the price/value equation and create communication strategies accordingly.

Recognize the private label paradox: Develop a strategy for how to engage with your retailer's private label, especially for the natural/organic portfolio. Expect further integration of premium brands. We cannot continue looking at this space as adversarial, particularly as brands.

Services and experiences will continue to expand and evolve: From health & wellness, to meal kits, to online grocery, retailers are relying on service and experience to differentiate their bricks & mortar stores from eCommerce platforms and small format stores.



For further information please refer to
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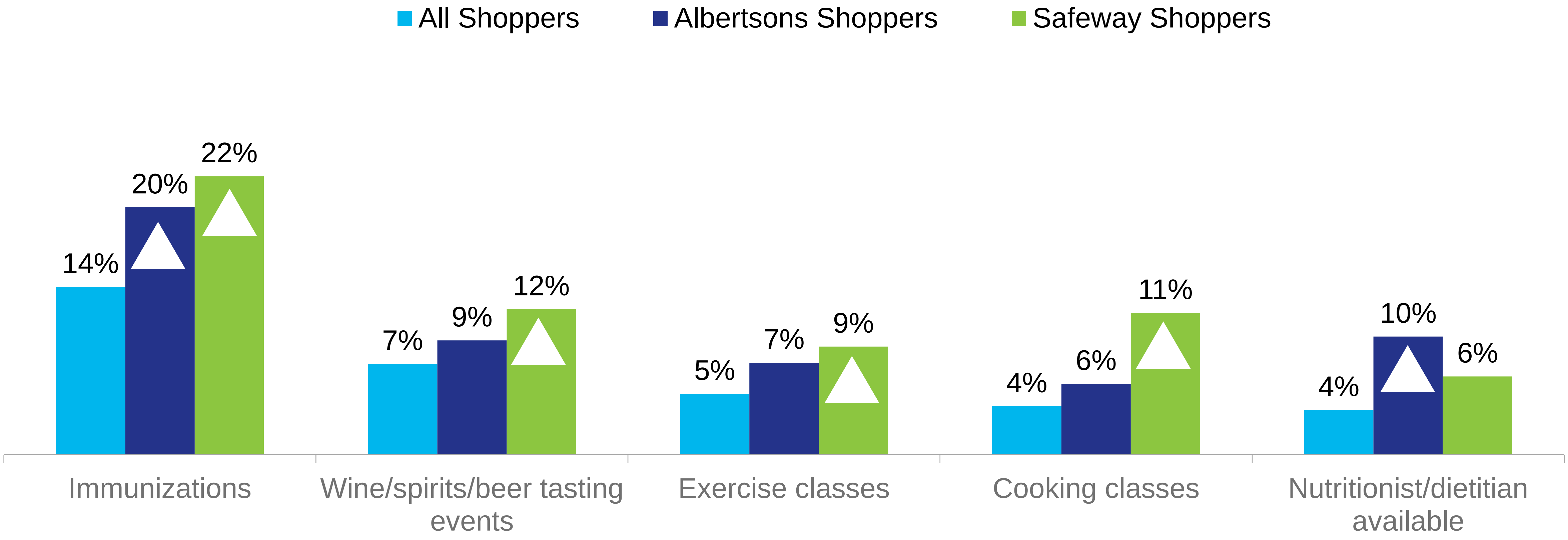
Albertsons and Safeway Shoppers Show Greater Use and Interest in In-Store Services

Use of In-Store Services

(among past four-week shoppers, use of service at any retailer)



Source: Kantar Retail ShopperScape®, February 2017

Albertsons and Safeway Shoppers Show Greater Use and Interest in In-Store Services

Interest In-Store Services

(among past four-week shoppers, interest in service at any retailer)