Impact of Global Urbanization on Retailers & Shoppers

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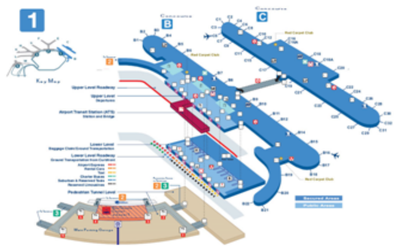
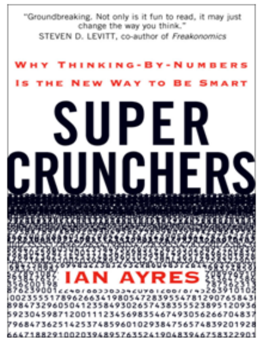
Continuing Analytics from 2010 Shopper Insights in Action Conference

The Catalyst





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Aggressive Use of Multivariate Analysis

Google

iPhone

amazon.com

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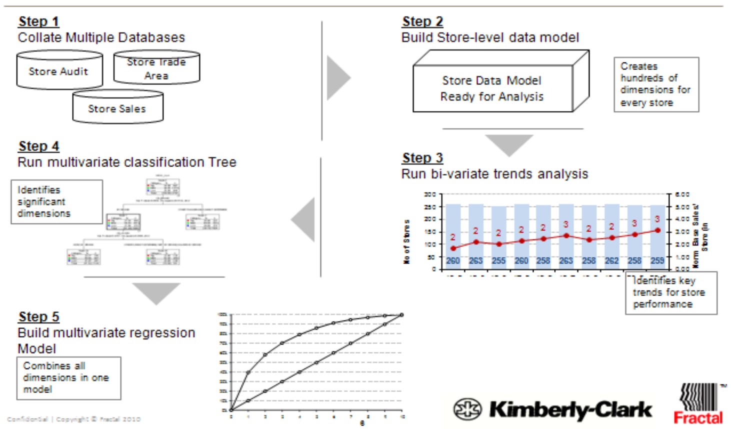
Methodology to understand drivers of base sales



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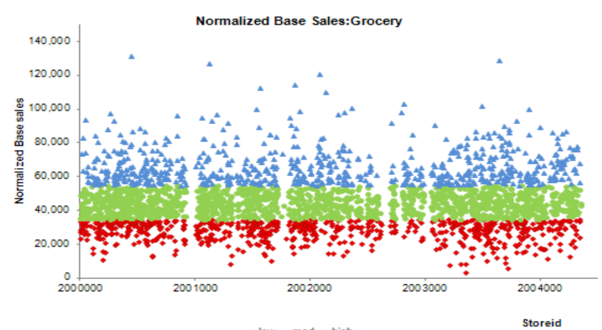
Bath Category – Grocery Channel



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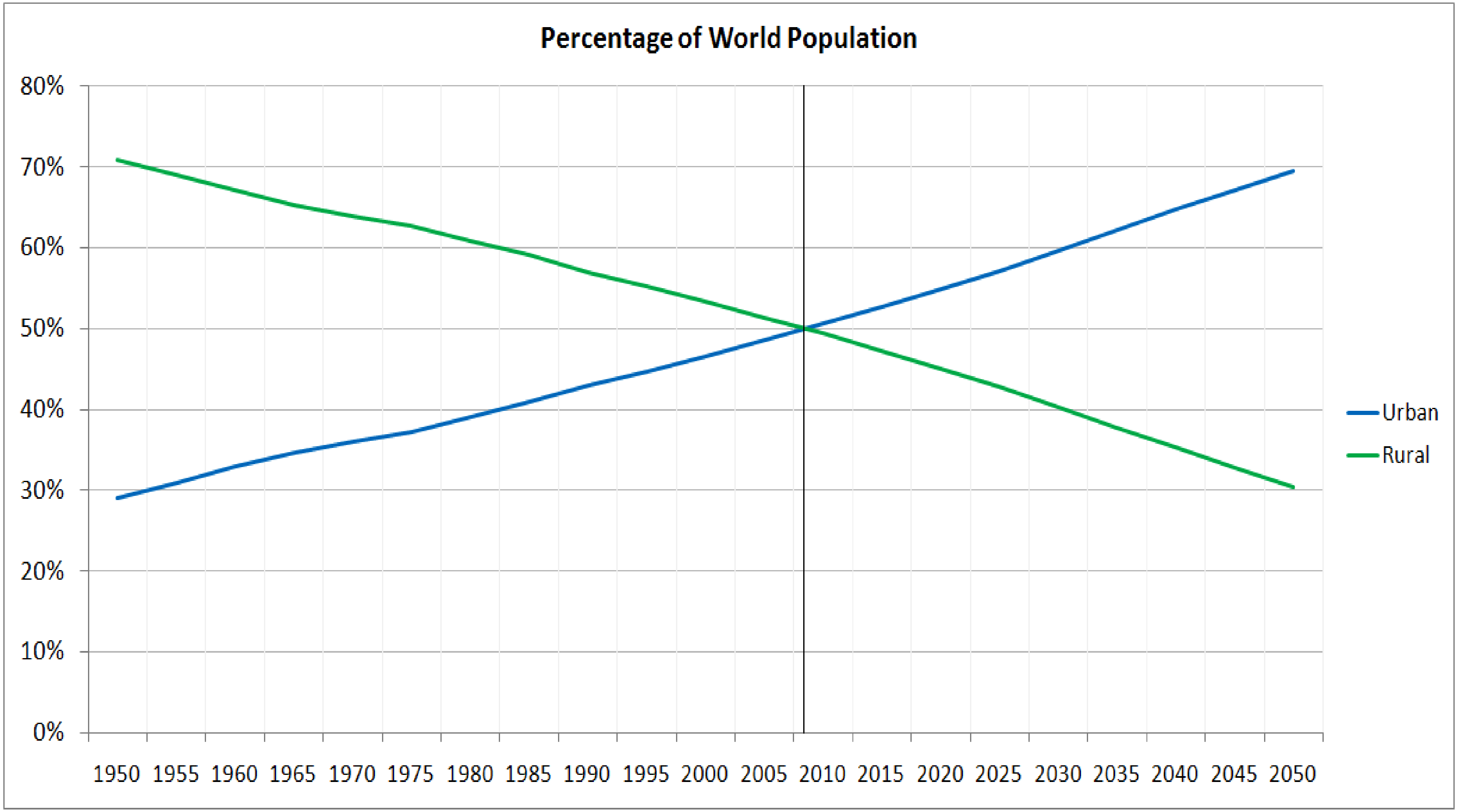
Discussion Outline

- Urbanization
- Analytics - Urban Vs Suburban/Rural Stores
  - Differences
  - Drivers
- Insight to Action
- Summary/Conclusions

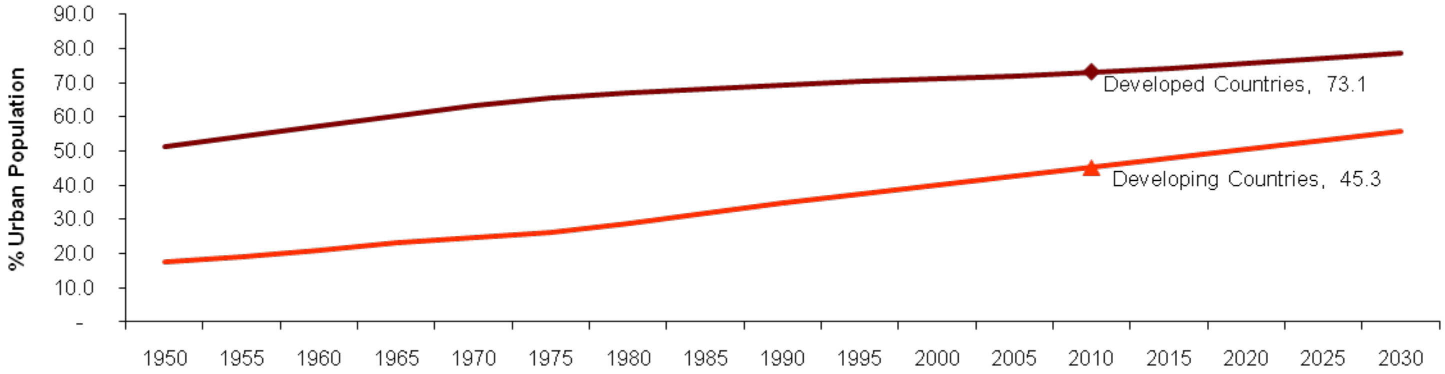
Did you know?

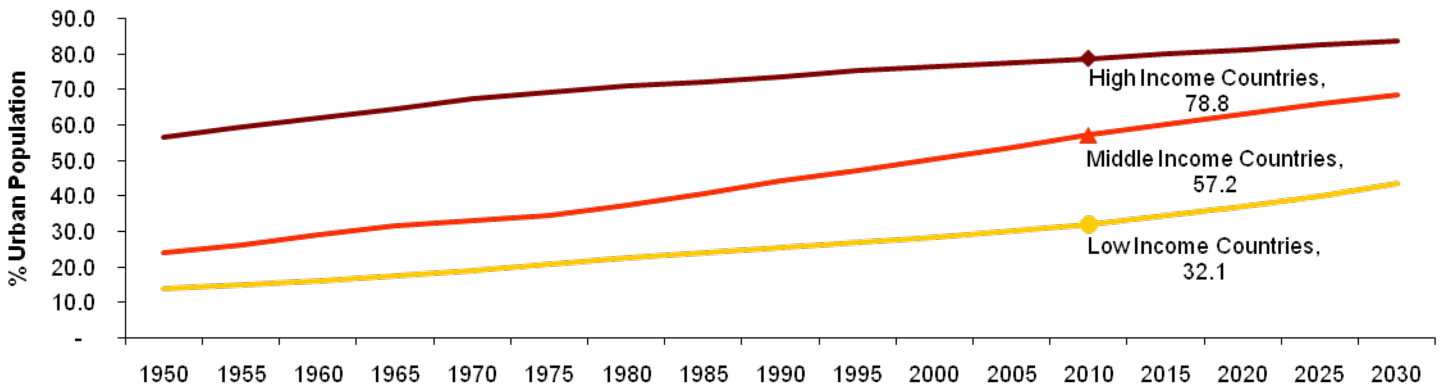


Data Source: United Nations, http://esa.un.org/unup/p2k0data.asp

By 2030, 60% of Global Population will live in Urban Areas

The Quiet Urbanization Megatrend





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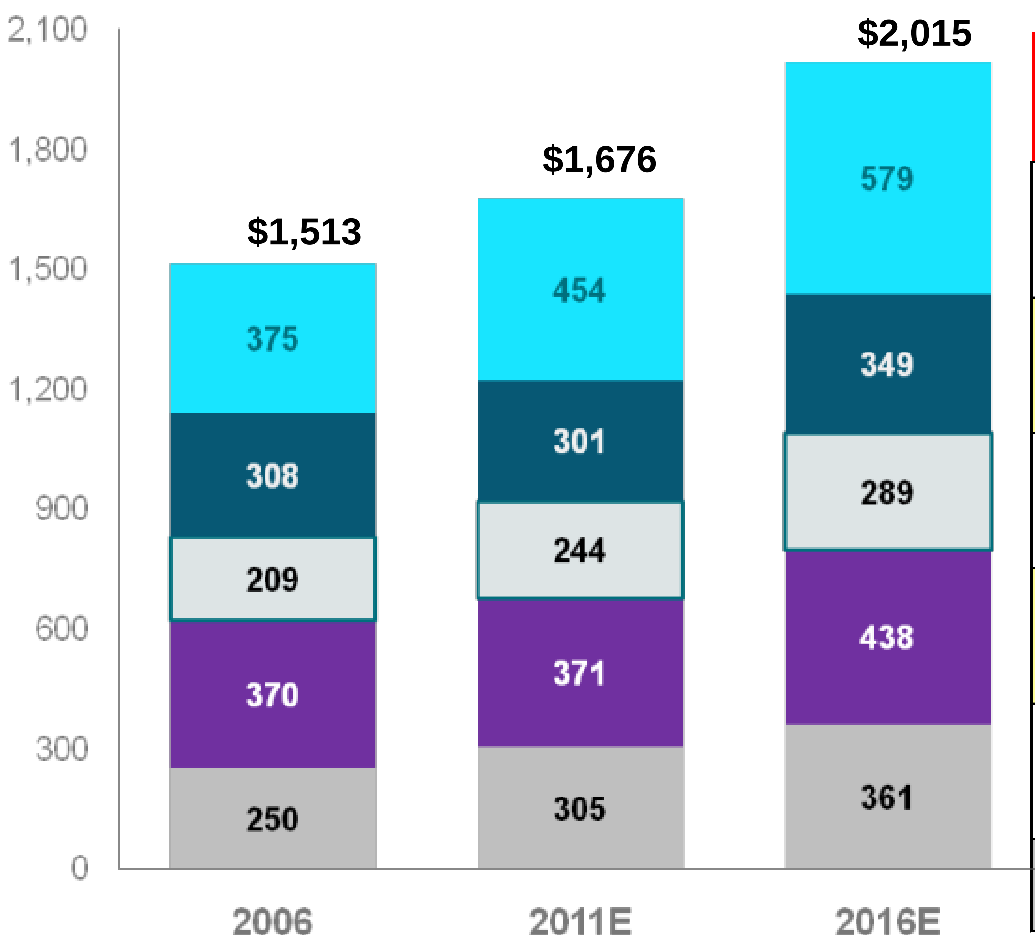
US Sales by Box Size

USD Billions



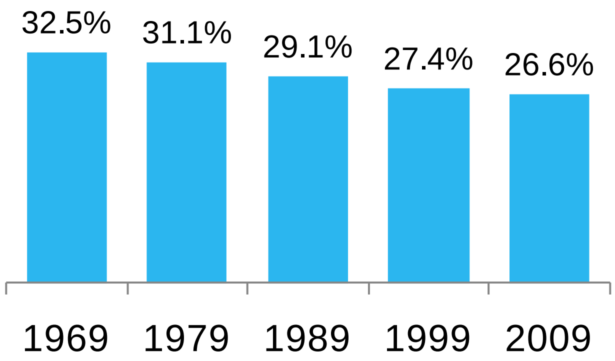
Size of Store in Gross Square Feet	CAGR '06-'11E	CAGR '11E-'16E
LESS THAN 20,000	3.9%	5.0%
BETWEEN 20,000-50,000	-0.5%	3.0%
BETWEEN 50,000-100,000	3.1%	3.4%
BETWEEN 100,000 AND 150,000	0.1%	3.3%
ABOVE 150,000	4.0%	3.4%
KR Store-Based Chain Retail	**2.1%**	**4.5%**

Source: KantarRetailIQ.com

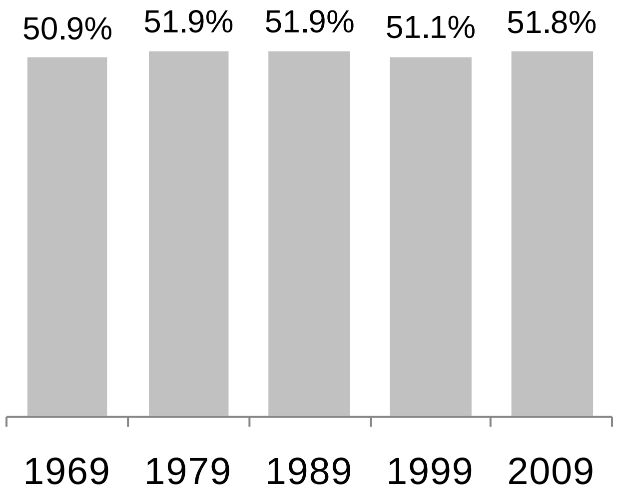
Income Extremes will both be strongly represented in Urban Areas

←--------------------------------Household Income in 2009--------------------------------→

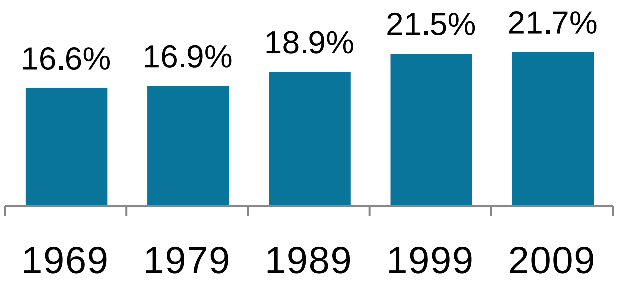
Less than $70,000 – 60% HH



$70,000 to $180,000 – 35% HH



More than $180,000 – 5% HH

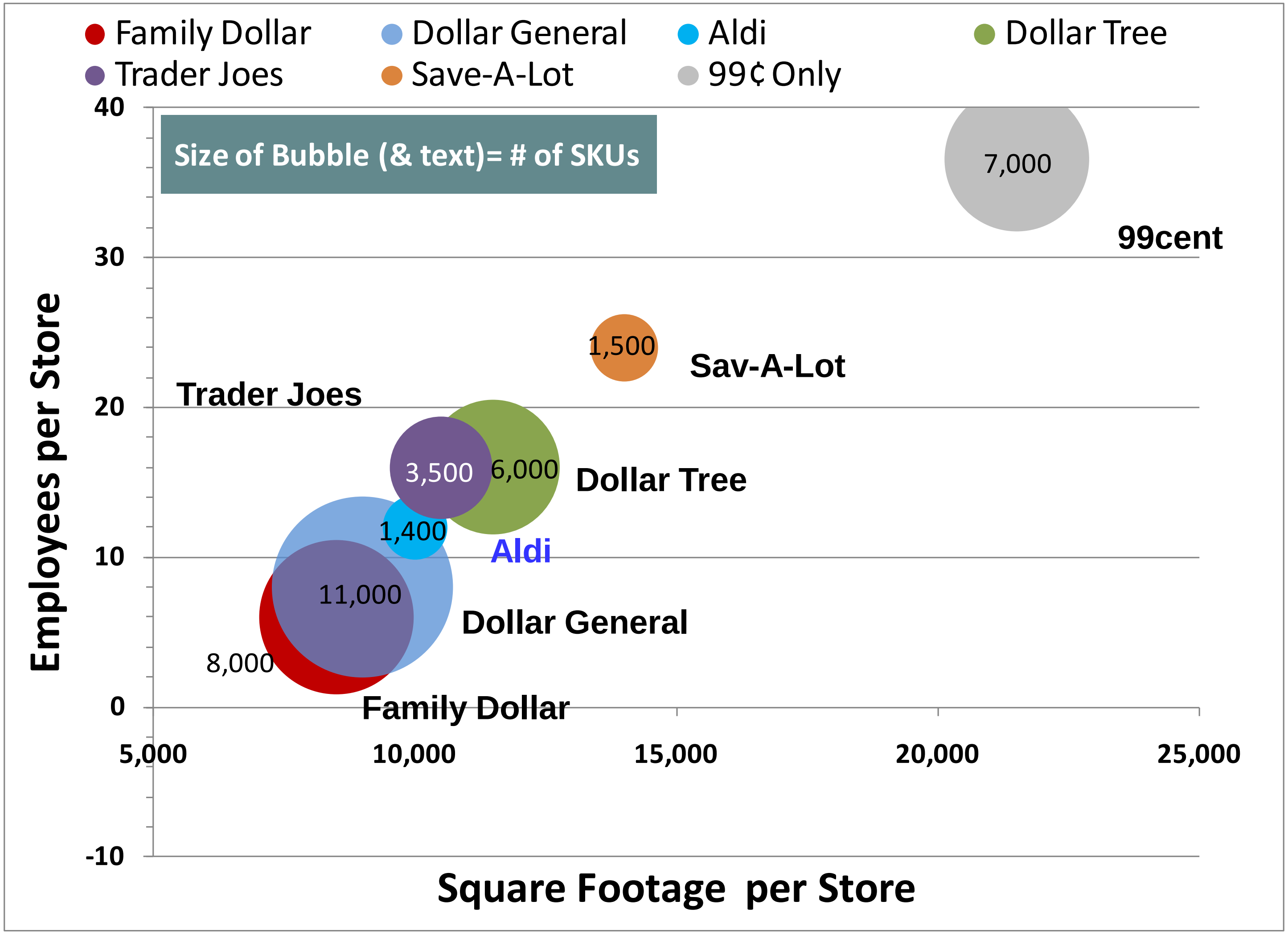


US & Canada – Wide Open Spaces

	US & Canada	Rest of World
Average store size in 2010	46000 sq ft	Tesco:15000 sq ft Reliance Fresh:4000 sq ft
Sales % of HH Income	6%+	8 – 43%
Types of products	Food & non-Food	Primarily Food
Average # of SKUs	47000	6000
Days between trips	3 per week	Daily
Private Label % of Sales	25%	30% - 50%

Compact Urban Retailer Reality

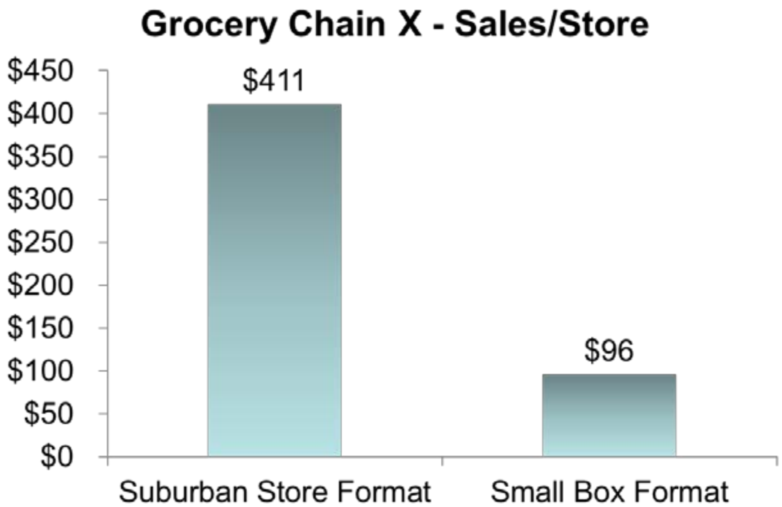
Size of Store Has Stronger Correlation with <u>Employees Needed</u> than <u># of SKUs</u>



Source: Kantar Retail analysis

Urban/Small Format Challenges to Business Models

- Retailers
  - More Small Format (Chain?) Stores
  - Sales Per Store Averages
  - Fewer, Harder Working SKUs
  - Employee requirements vs cost
  - Supply Chain



- Manufacturers
  - 3rd Party Distribution
  - 3rd Party Sales
  - Number of Employees
  - Supply Chain
- Researchers

Are we ready?

What did we want to test?

- How are Urban Shoppers different from Rural?
- How are Urban Stores different from Rural stores?
- How are category dynamics different in Urban stores vs. Rural stores?
- How are drivers different between Urban stores vs. Rural stores?

We classified ~ 4000 stores as Rural, Suburban and Urban stores to understand the impact of urbanization

Rural Stores

Based outside of Urban/Suburban with populations less than 10,000

For example: Bentonville County


Suburban Stores

Based urbanized counties with population of 50,000 or more, minimum 500 per square mile

For example: Schaumberg

Urban Stores

Typically located in inner city, minimum 1000 people per square mile

For example: Manhattan

Methodology

Store Catchment
- Demographics
- Competition

Store Characteristics
- Size
- Pharmacy / Gas

Category
- Aisle location
- Blocking / Adjacencies

Category Performance
- Total Sales
- Normalized Sales

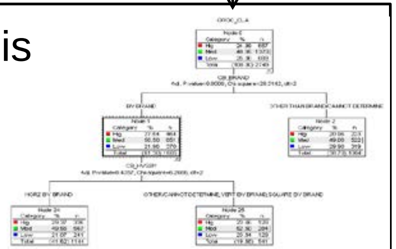
Inputs

Grocery & Drug Stores

Winning Stores

Losing Stores

Driver's Analysis using Multiple Regression

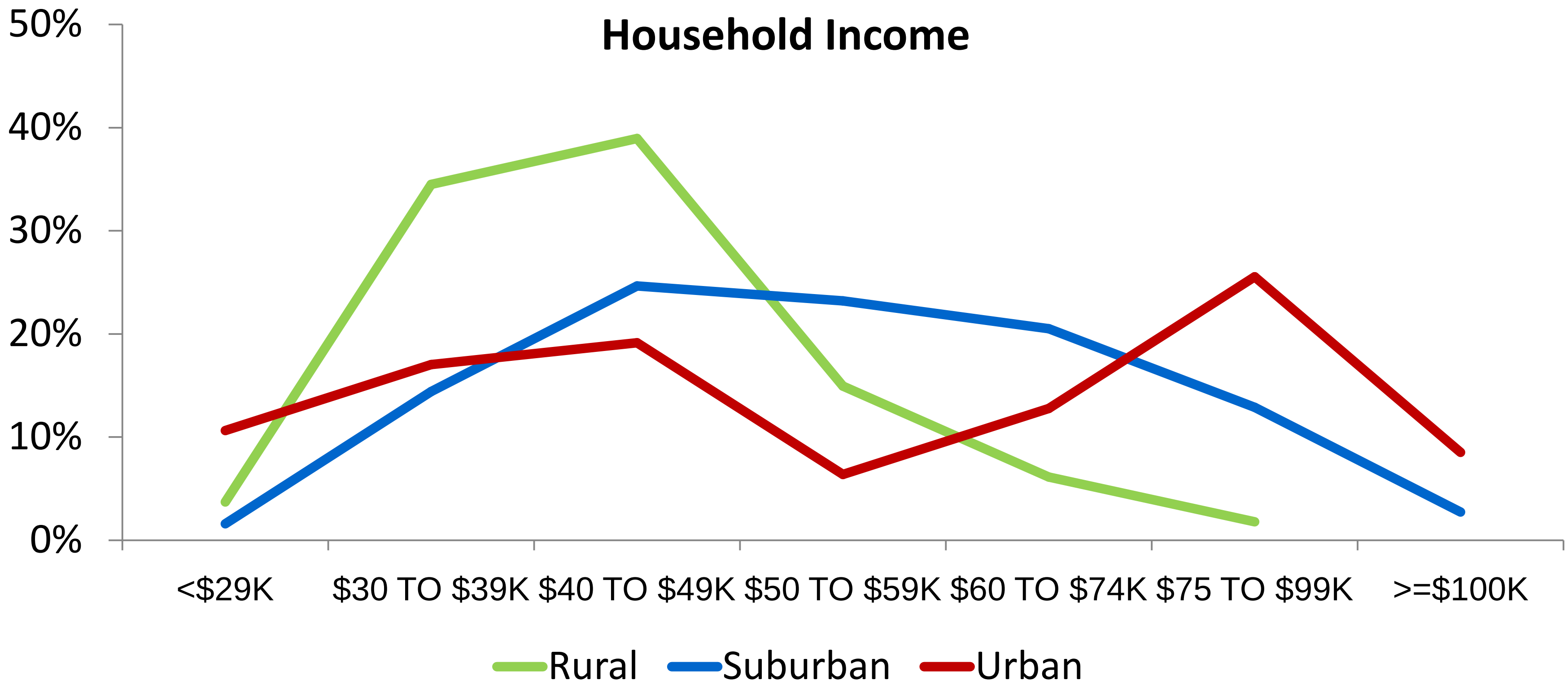


Process

Success Drivers

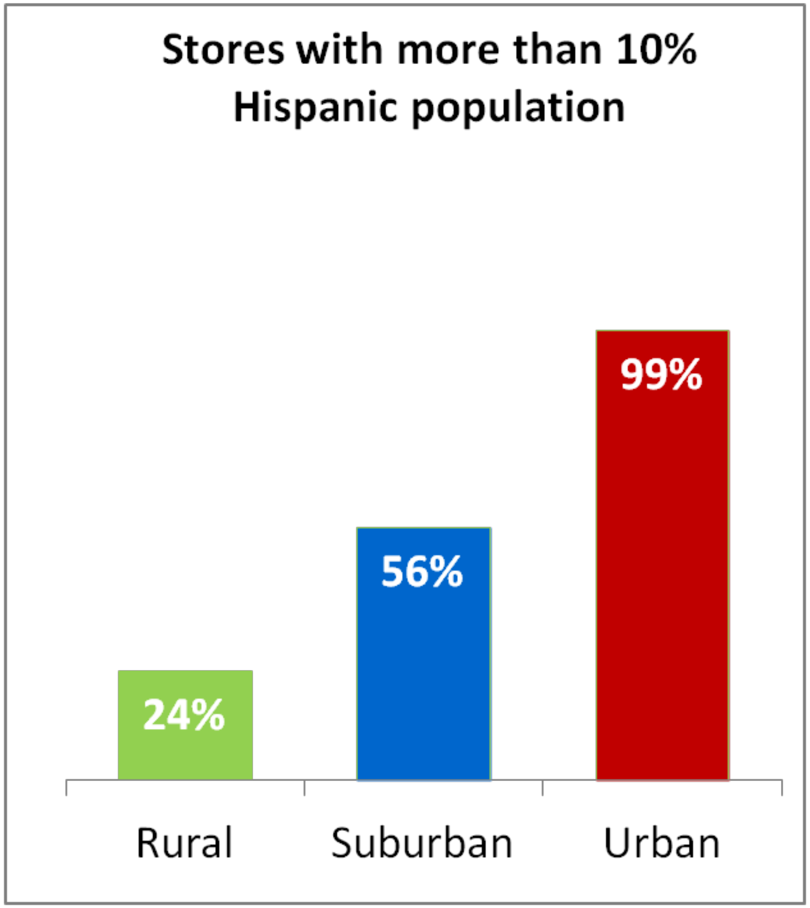
Outputs

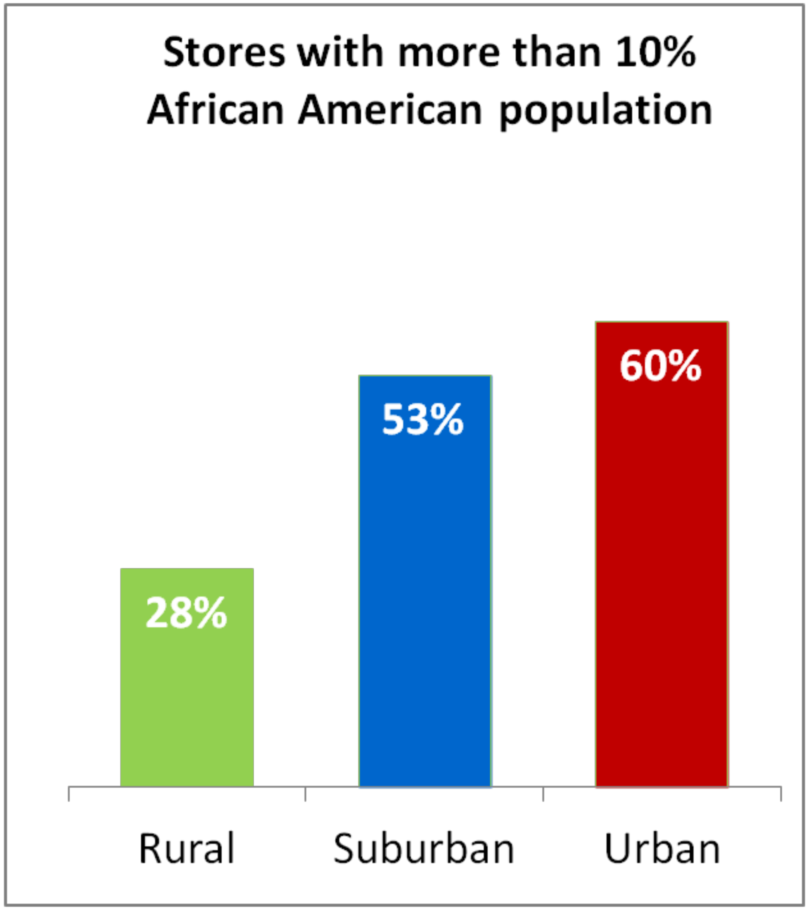
Distinct Income distribution



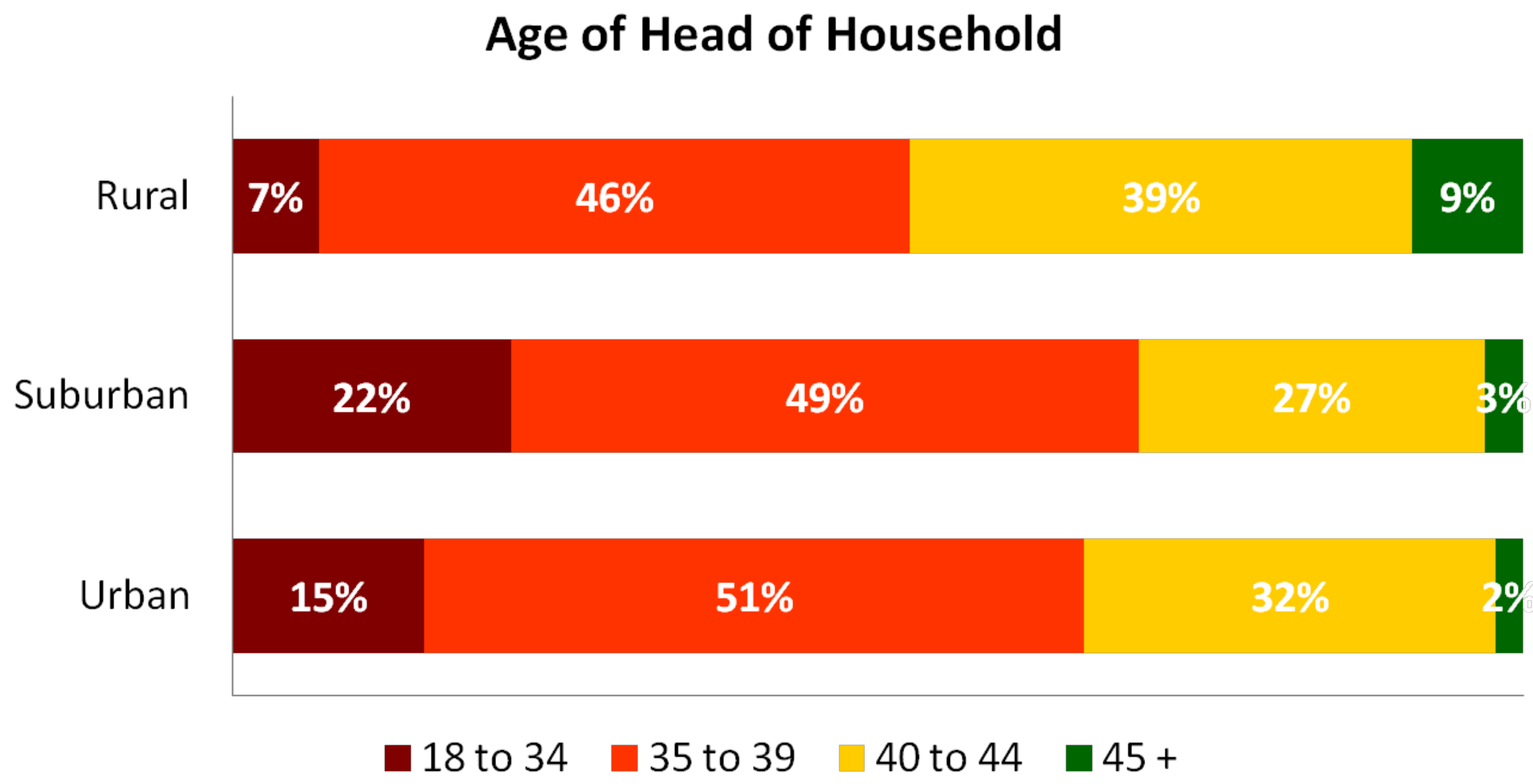
- Rural areas have the highest density of low income households
- Suburban stores have households spread out evenly across Income ranges
- Urban areas show two income profile peaks – very low income as well as high income groups

Urban stores showing highly diverse ethnicity

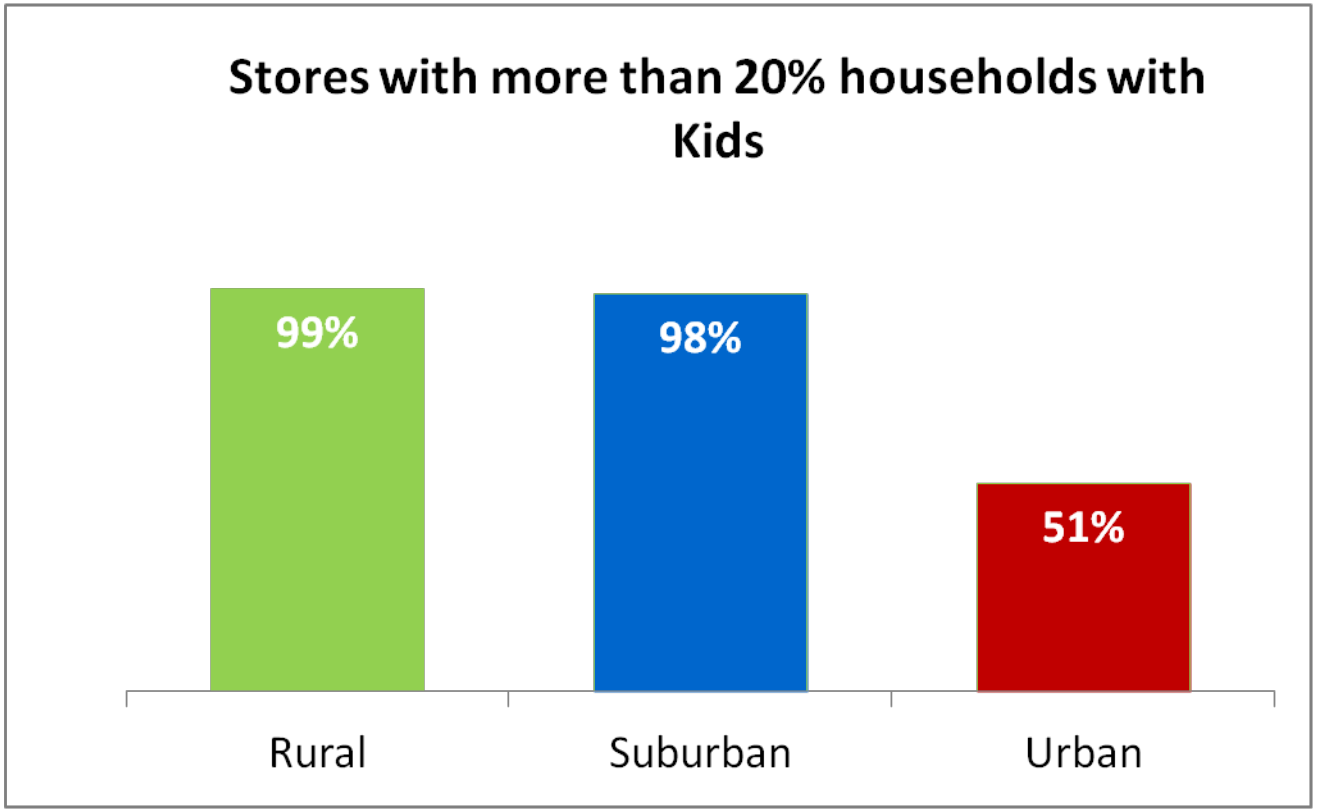




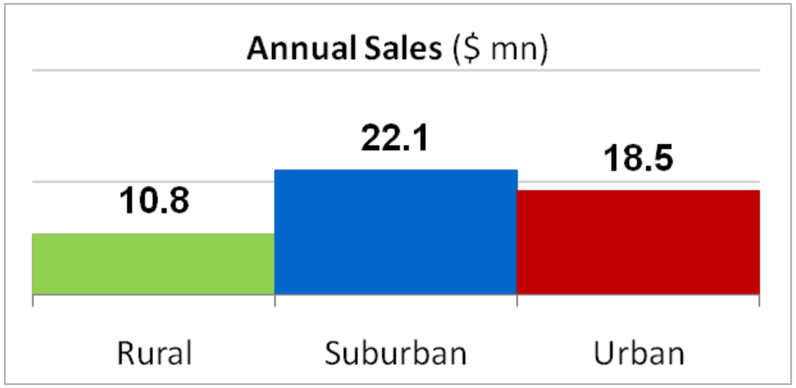
Rural = Older households
Suburban/Urban = Younger households

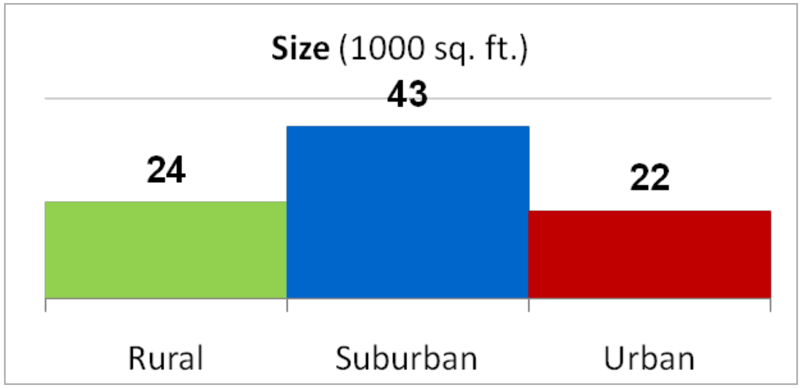


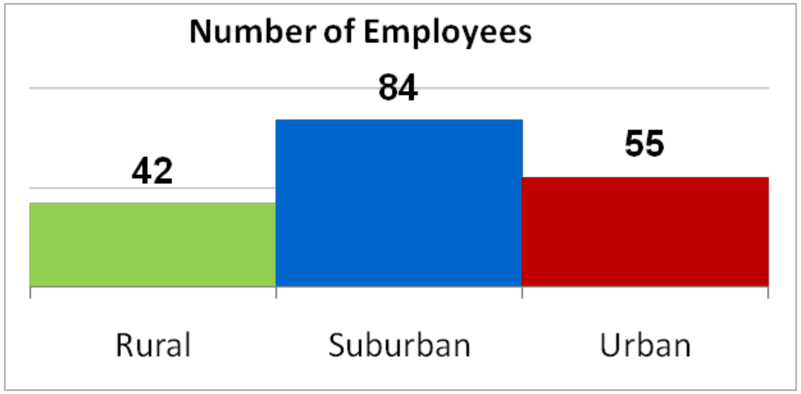
Fewer Urban households have children

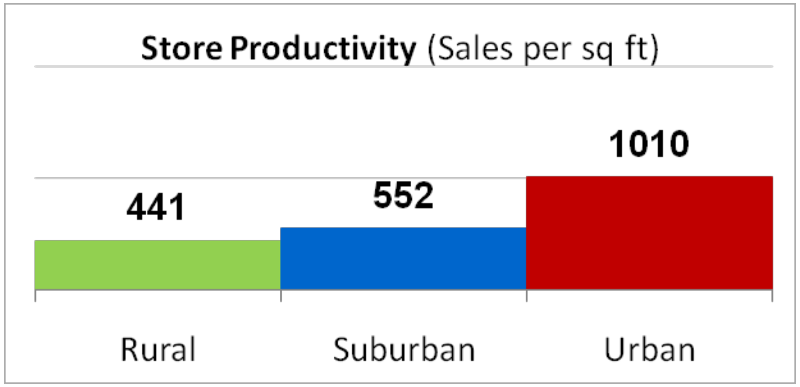


Grocery Stores









- Urban Store productivity = 2.3 times Rural Stores
- Number of employees correlated to Size of Store

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Diapers

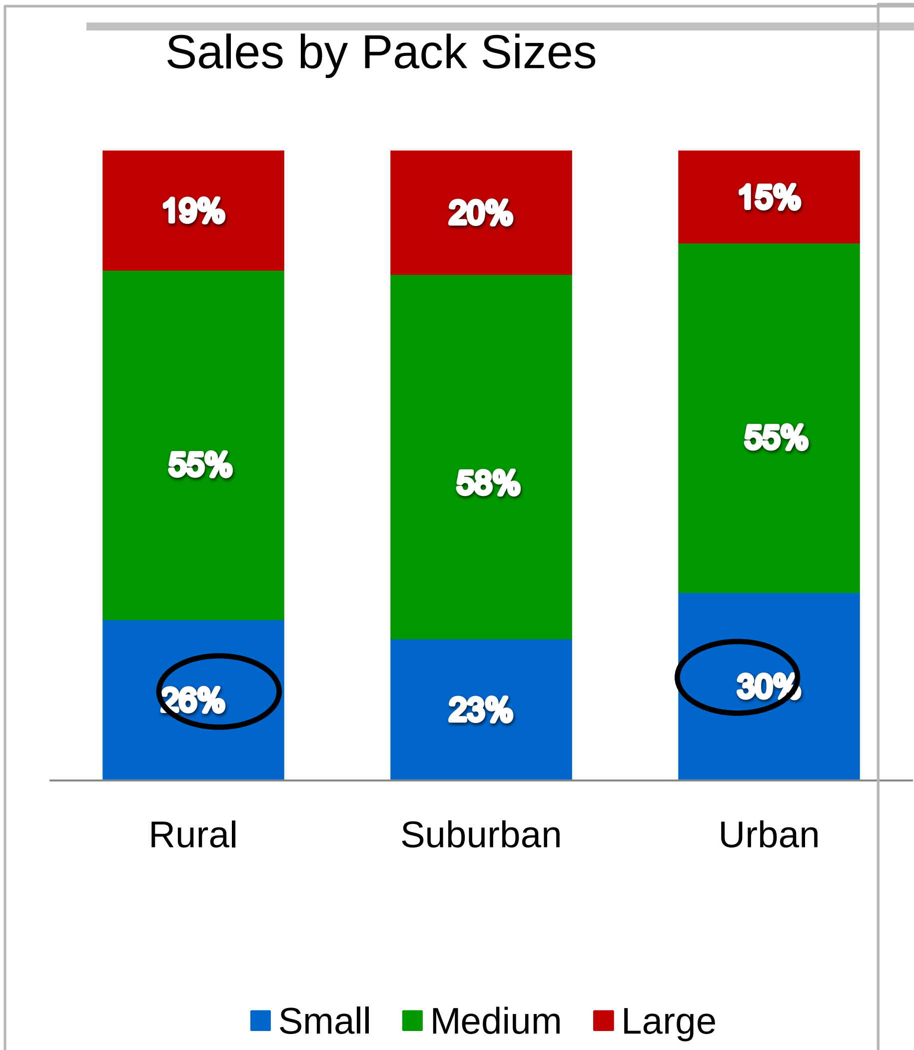
Drug Channel

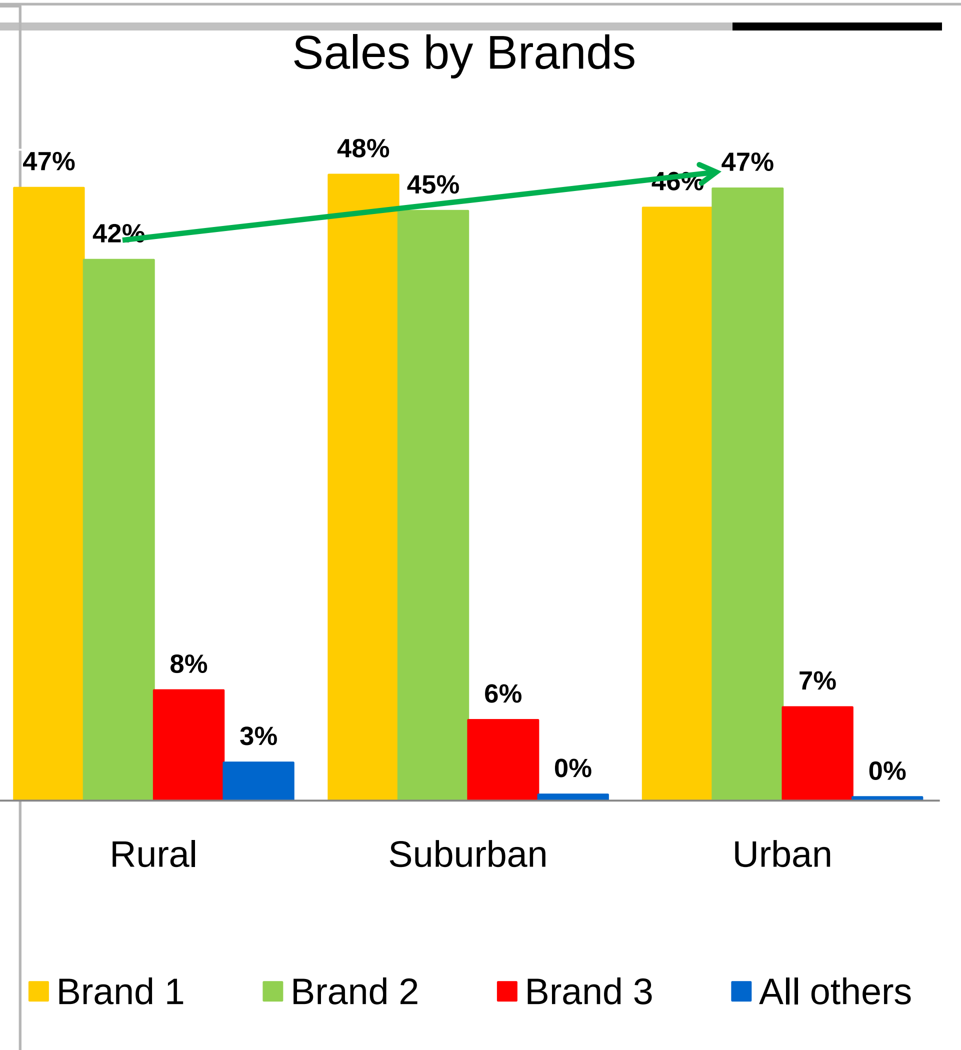
Diapers in Drug Stores

	Rural	Urban
Store Size	1X	1.3X
Linear Feet	28 ft	36 ft
Number of UPCs	27	23
Feet per UPC	1X	1.45X
Average Price	100	121
Category Sales	$1,671	$14,039

8.4 times

Brands, Pack Size – in Drug





- **Small pack assortment preference for Urban stores**
- **Brand 2 set to ride the Urbanization trend**

How are drivers of sales different in Urban Drug Stores Vs Rural Drug stores

Top 3 Drivers of Diapers Category Sales in Drug Stores

Rural		Urban	
Number of UPCs	▲	Household Income	▲
Private Label blocked by Brand	▲	% of HHs living Affluent Lifestyle	▲
Category leads the aisle	▲	Private Label intermixed with National brands in the store	▲

Top Drivers in-store

Top Drivers store-catchment

Other analytic solutions to decode shopper behavior …

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What is working?

- In-store Mix Driver’s Analysis

Where to implement ?

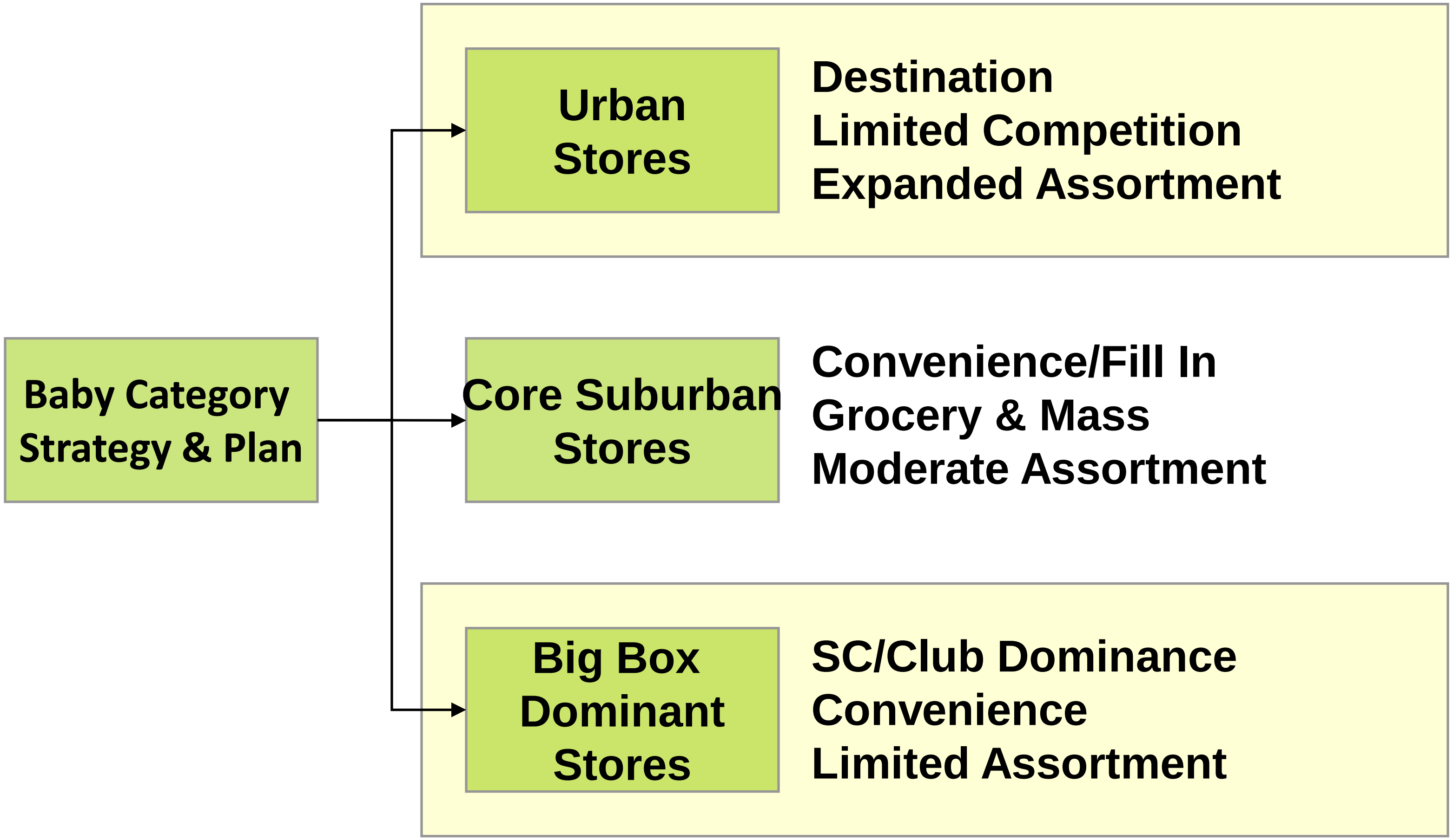
- Store Segmentation

How to Scale?

- Store Tests – Experimental Design

Insight to Action

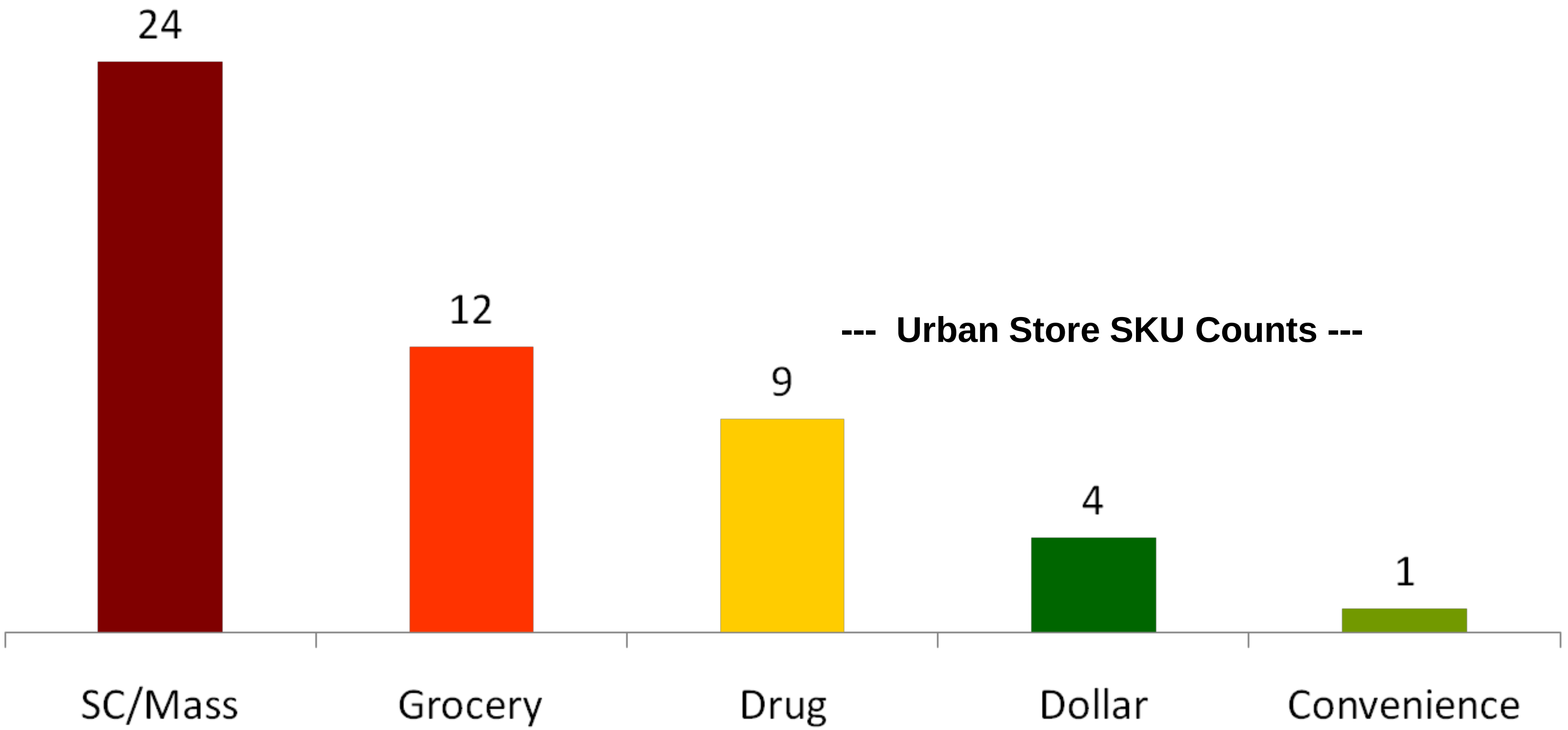
Urban Store Strategies



Urban Store Merchandising

- **Increase selection** - Food & Formula items, Diapers, Pants and Wipes and increase OTC Childs Meds.
- **SKU Rationalization** – Toiletries, Q-Tips, Baby Oil, Distilled Water.
- **Adjacency Opportunities / End Cap Opportunities**
- **Higher penetrated categories in back** of the aisle to drive shoppers down the entire aisle
- **Increase Food with emphasis on organic products** while also increasing formula and have it out of lock up

Kleenex SKU Counts



What happens when we combine Urban Growth with the other Growth Channel of the next 10 Years?

Summary Conclusions

- Urban Stores & Small Format to outpace
  - Are we ready?

- It's the Trip
  - Is your sub-category right?
  - Assortment Challenge

- Urban & Mobile = Step Change in Selling

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