Numerator

NEW FRONTIERS

Small Format, Big Impact

Agenda

- Small Formats & Specialists: So what?
    - Small Format: Dollar, Drug, Convenience
    - Specialists: Trader Joe's, Aldi, Lidl
- How do larger retailers compete?
- What can we learn from Lidl?
- How can I take action?

Across retail, store footprints continue to get smaller

Six Surprising Facts That Explain Trader Joe's Secrets To Success

Denise Lee Yohn Contributor
CMO Network -
I write about brand leadership.

TWEET THIS

Trader Joe's sticks to a quirky, so
breaks from the conventions of g

The folks at Trader Joe's decided t
Inside Trader Joe's, to "provide so
Trader Joe's special." Amid the ba
employees' favorite items are valu
operates. Despite aggressive comp
Market/Amazon, Sprouts Farmers
such as Albertson's and Safeway, T
counterintuitive playbook that bre
retail in general. The podcast

Why Big-Box Retailers Target And Kohl's Are Going Small

Julianne Slovak Cont
Retail
I cover retail trends and n

Aldi unveils new products in aggressive push toward fresh and organic

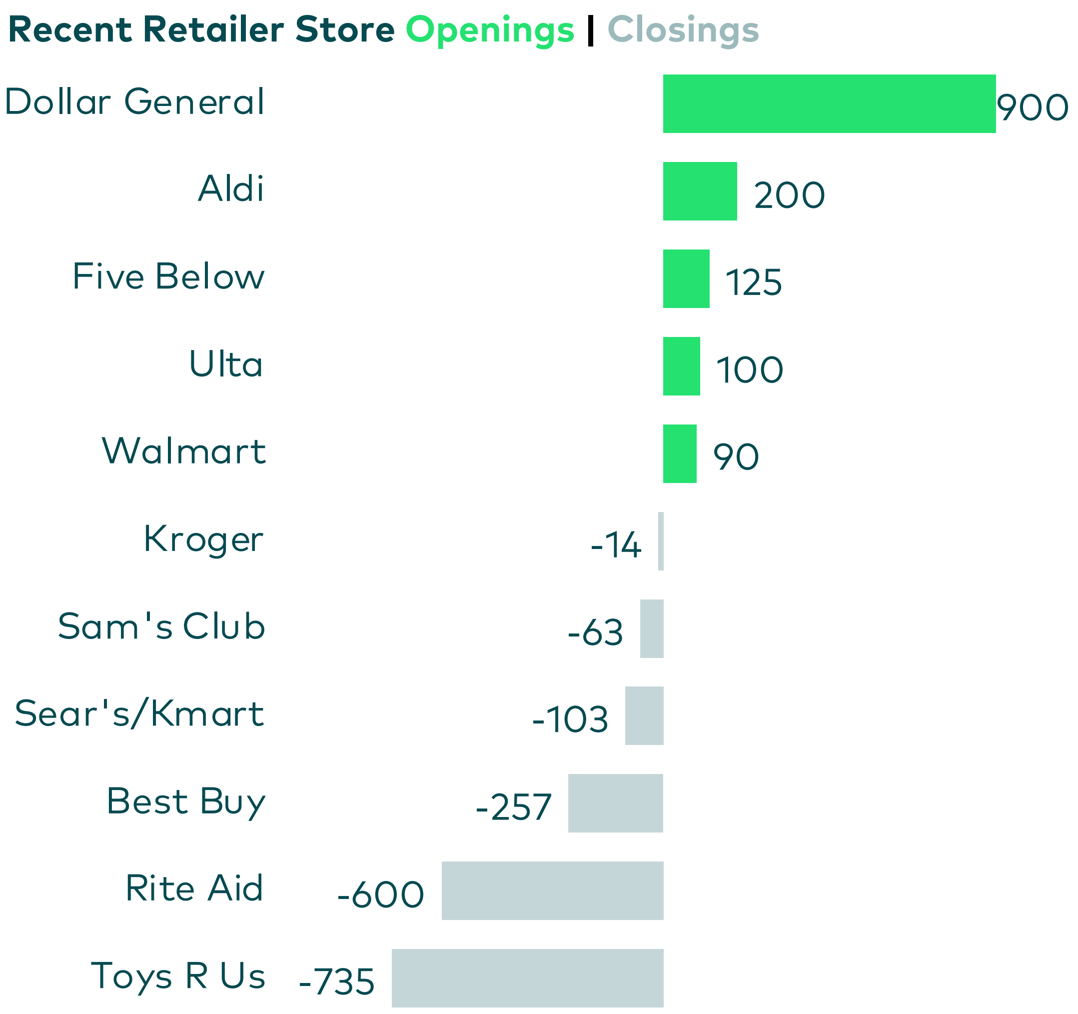
Discount grocer rolls out new f
chain's $5 billion overhaul

By Greg Trotter | Chicago Tribu
Published on Aug. 12, 2018

BRIEF

Lidl to accelerate pace of store openings in September

As Big Boxes shrink, Small Formats & Specialists multiply



2,970

Small Format Stores opened in 2017, in an environment where many big boxes closed their doors

Source: Statista (Various sources (Company reports); IHL Group), www.usatoday.com/story/money/retail/2018/04/27/retailers-closing-most-stores-2018-so-far/557275002/

Numerator

As square footage drops, how do shopping trips evolve?

87

Avg. Annual Small Format Trips per HH

$1,430

Avg. Annual Small Format Spend per HH

13%

...of CPG dollars go to Small Formats & Specialists

¼

...of CPG trips go to Small Formats & Specialists

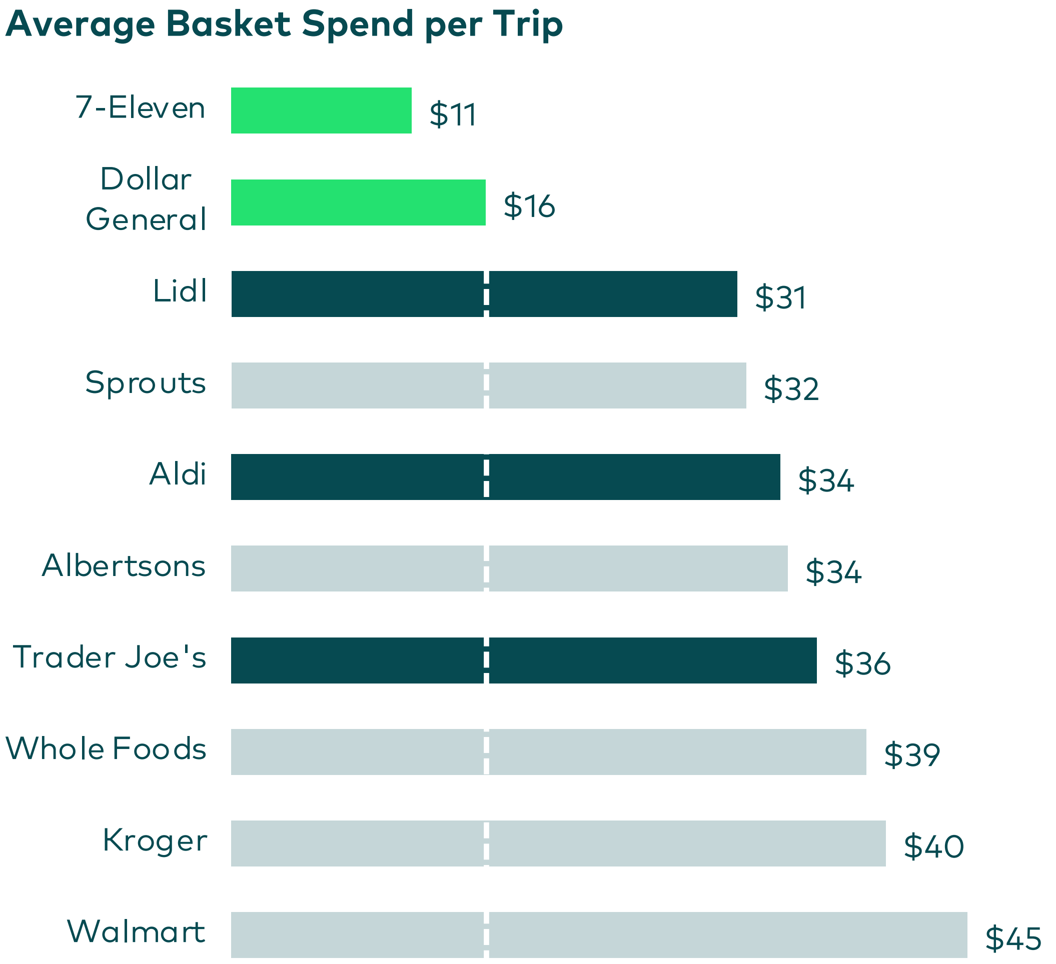
Source: Numerator custom analysis, 12 months ending August 2018; Grocery, Baby, HBA, Household, Pet & Tobacco purchasing

Small Format stores, but not all small baskets

Dollar and Convenience stores capture quick trips

Aldi and Trader Joe's basket size is similar to larger format stores

21% of Aldi trips feature 21+ items…
…10pp higher than Walmart or Kroger!



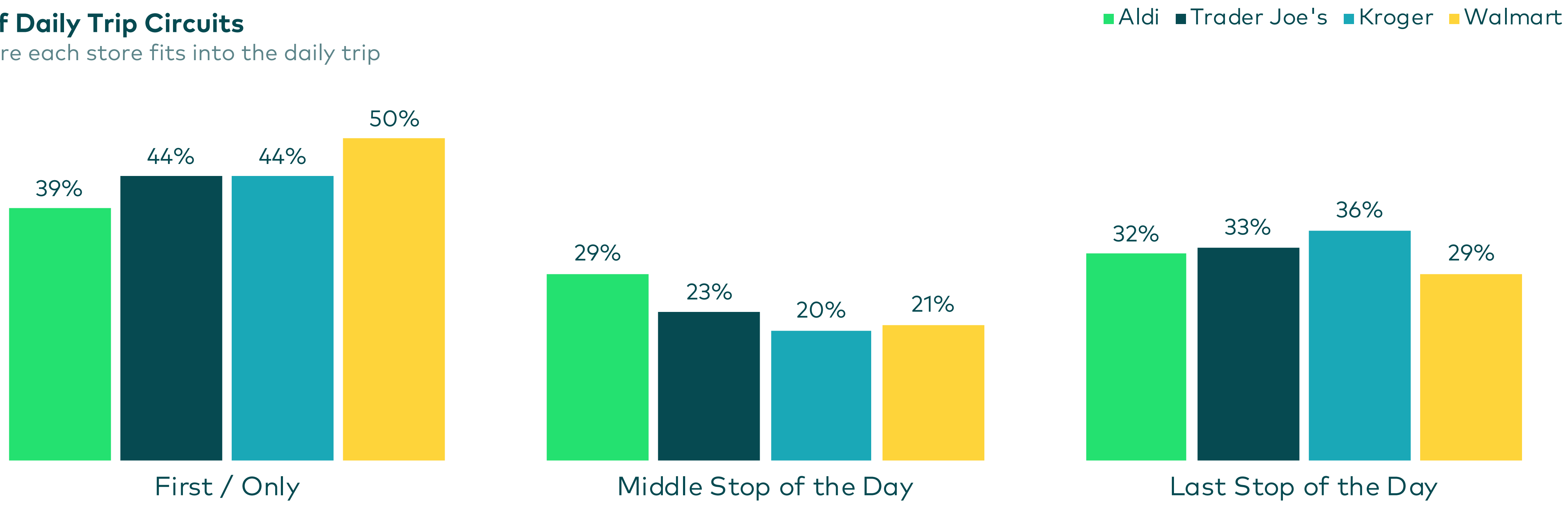
Source: Numerator custom analysis, 12 months ending August 2018; Grocery, Baby, HBA, Household, Pet & Tobacco purchasing

Numerator

Small formats capture critical first / only stop of the day

- ~40% of the time Aldi is shopped, it is the first or only retailer visited that day
- Basket size declines after the first/only trip

% of Daily Trip Circuits
Where each store fits into the daily trip



Source: Numerator Daily Trip Circuits, 12 months ending August 2018;
Trips including Baby, Grocery, Health & Beauty, Household, Pet products

Numerator

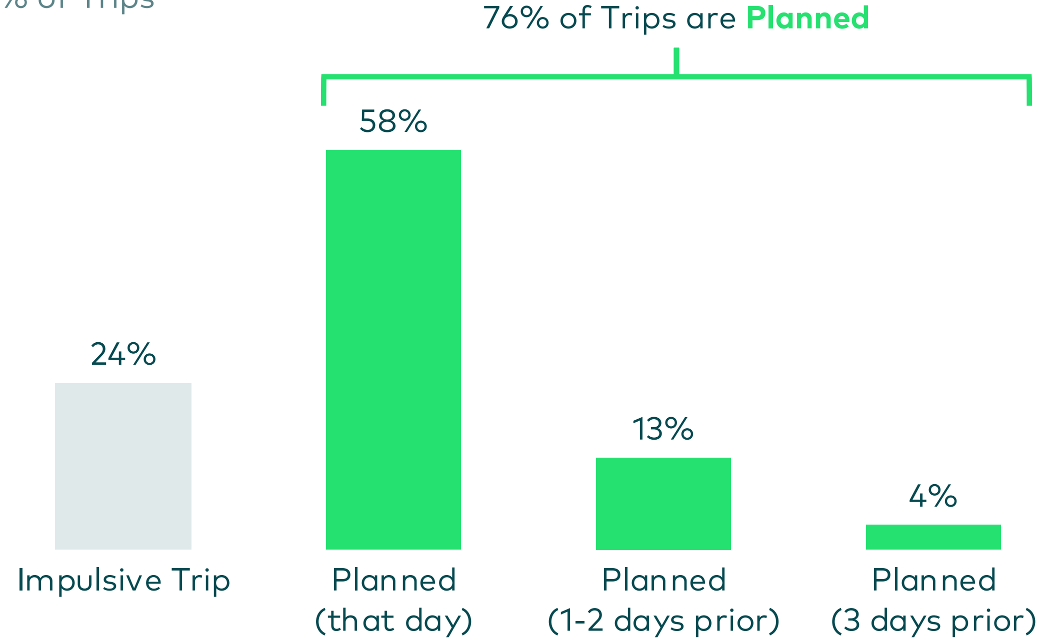
How do shoppers feel about the Small Format revolution?

Numerator

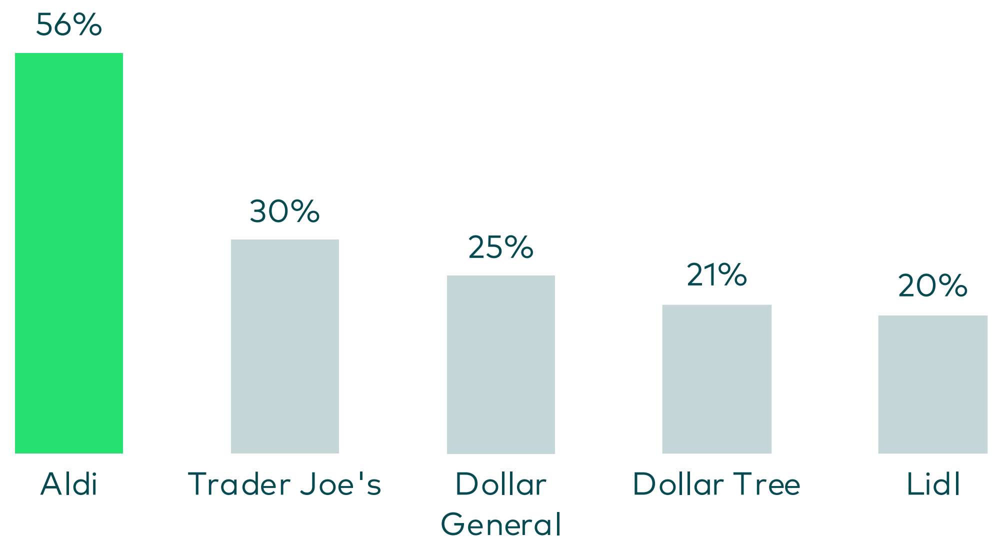
Small Format trips are planned and increasingly relevant

- Aldi shows high incidence of planned trips vs. other small format stores (93% vs. 76% avg)
- While smaller retailers vie for relevance in Grocery, Aldi is *already* viable

Small Format Trip Planning
% of Trips



"This is my Primary Store…"
% of shoppers at each store

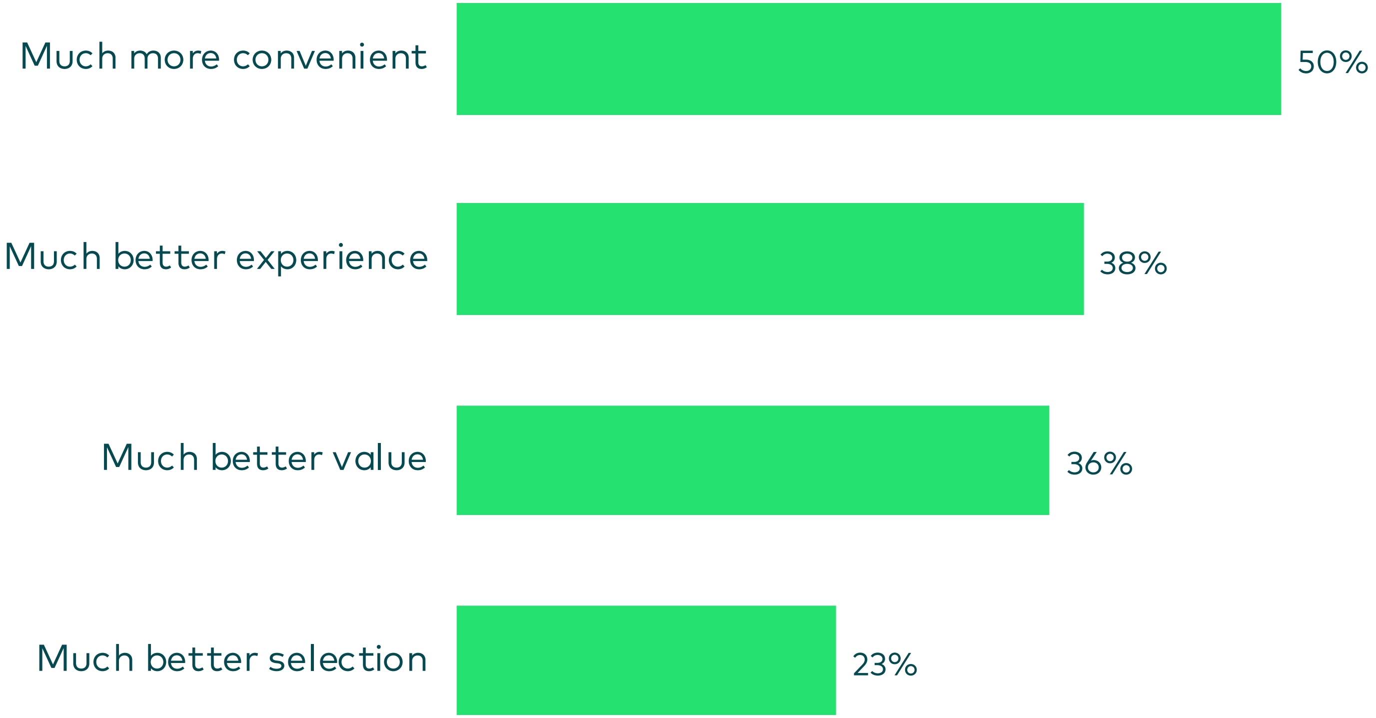


Source: Numerator Survey - Small Format (n=2176)
Question: When did you decide to make your trip to (Retailer)?
Question: How would you characterize your shopping behavior at (Retailer)?

Numerator

It's not all about convenience...

Compared to larger stores, Small Formats are...
% of shoppers agree



- Small format stores are commonly seen as more convenient
- But shoppers can also see experience, selection and value as key differentiators

Source: Numerator Survey (n=2176)
How would you rate the overall [...] for your purchases from (Retailer) compared to other larger stores?

Numerator

…there is a lot to like at these stores

- Shoppers at Dollar General, Trader Joe's, and Aldi see the stores very positively across numerous factors in the Retailer decision

DOLLAR GENERAL

CONVENIENCE

Nearby location (87%)

Quick In & out (55%)

TRADER JOE'S

EXPERIENCE

Friendly staff (83%)

Store is clean (77%)

Fun to browse (67%)

ALDI

VALUE

Has low prices (87%)

Priv. label at great prices (37%)

TRADER JOE'S

SELECTION

High quality store brand (67%)

Unique selection (64%)

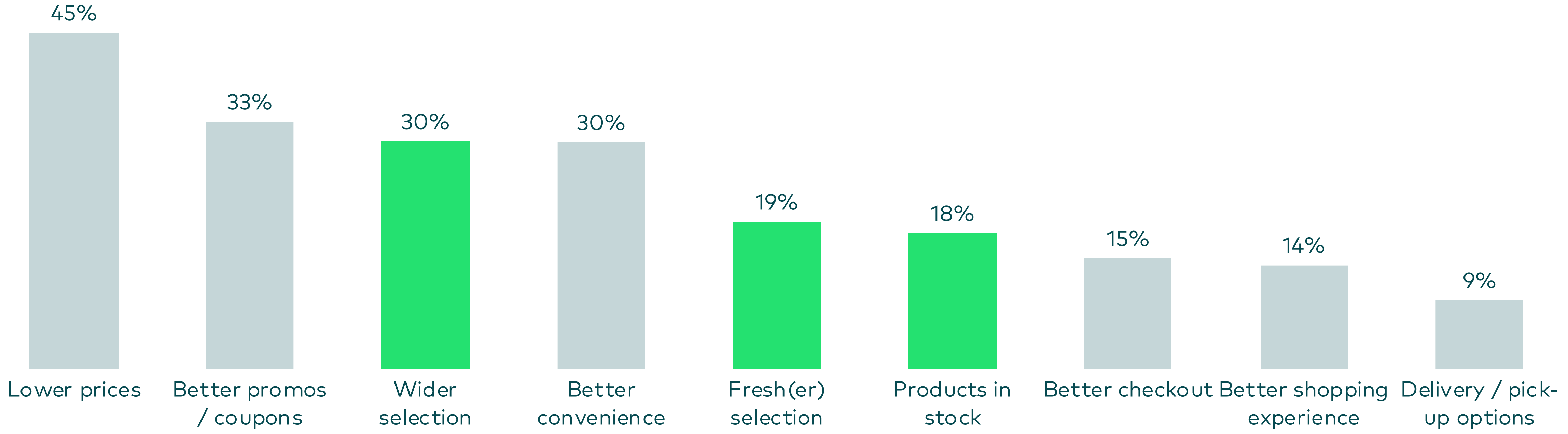
Fresh foods (53%)

Source: Numerator Survey (n=2176)
Question: Which of the following statements about […] apply to your purchase(s) from [Retailer]?

How can retailers encourage trips to their store?

- Product selection and availability: keys for retailers and manufacturers to collaborate
- Overall experience is not commonly a key factor for switching

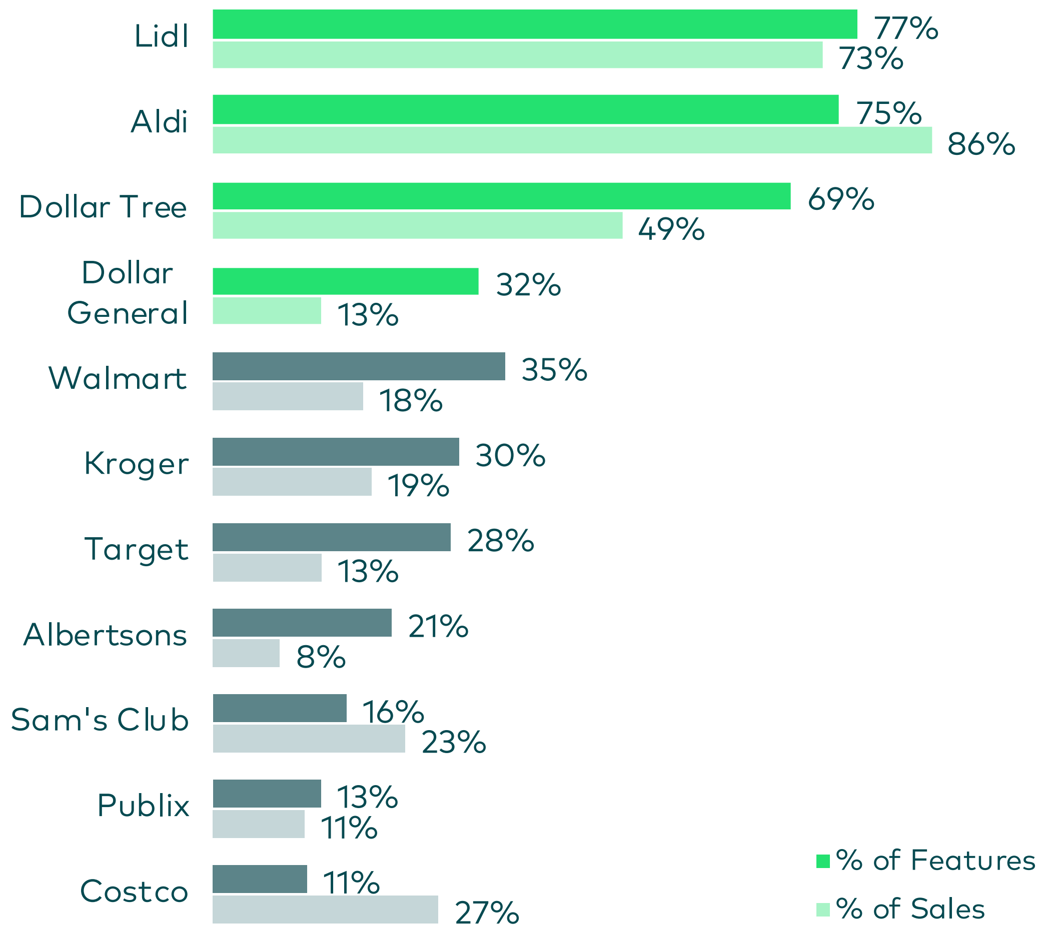
Why would shoppers go elsewhere (vs. retailer shopped)?



Source: Numerator Survey (n=2176)
Question: What would cause you to shop somewhere other than (Retailer)?

What role does private label play?

% Private Label by Retailer



Small Format stores weigh the trade-off between larger assortments and diminishing margins with their products

Large Format stores should tout a wider range of products and price points to meet their shoppers' needs

Manufacturers are challenged to offer brands with benefits not found in Private Label,
to complement small format assortments

Source: Features from Numerator Analytics, 52 Weeks Ending 8-25-2018;
Sales from Numerator Insights Data Explorer, 12 months ending 8/31/2018

Numerator

What can we learn from Lidl?

Lidl struggles for relevancy and remains a small threat

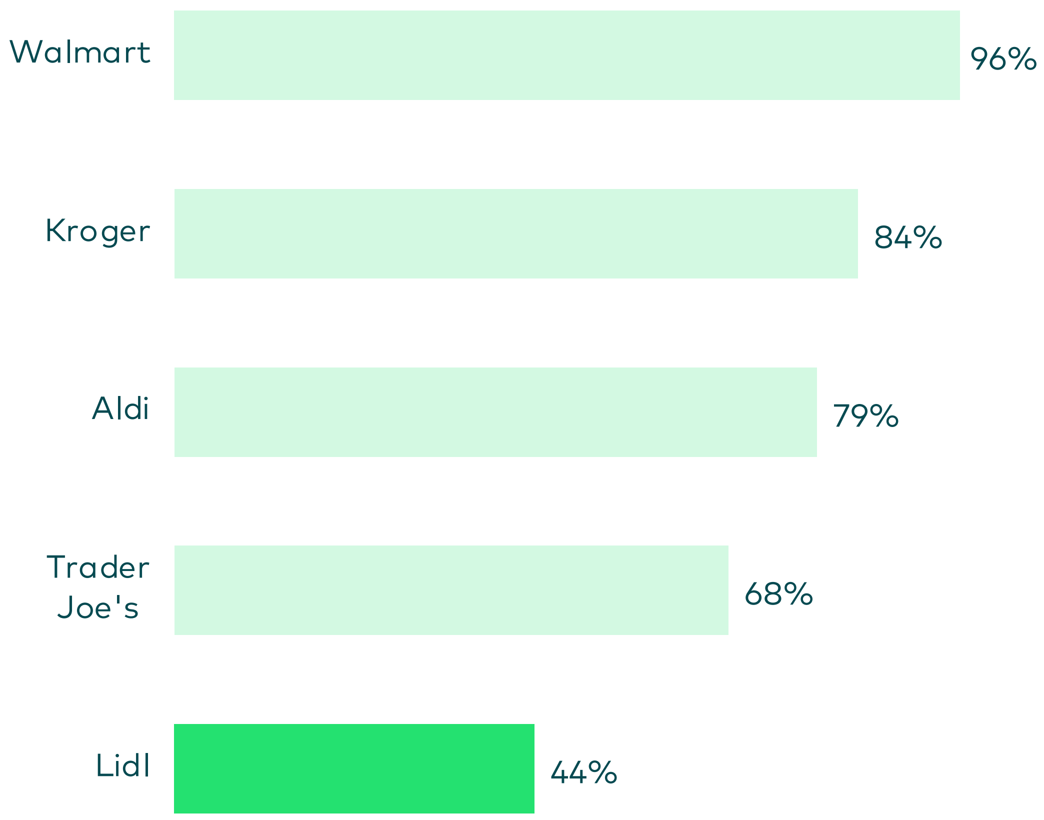
Lidl opened with much fanfare in 2017, but has not met expectations

The store has suffered from poor assortment and competitive price matching

Lidl attracts fewer repeat shoppers, smaller baskets and less frequent trips than its key competitors

How will Lidl react to negative perceptions to course correct in the US market?

% Repeat Shoppers by Retailer



Source: Numerator Insights, 12 months ending 8/31/2018

How will Lidl react to negative shopper perceptions?

Step 1: Rethink how categories drive traffic to their stores

Source: Numerator Promotions Intelligence

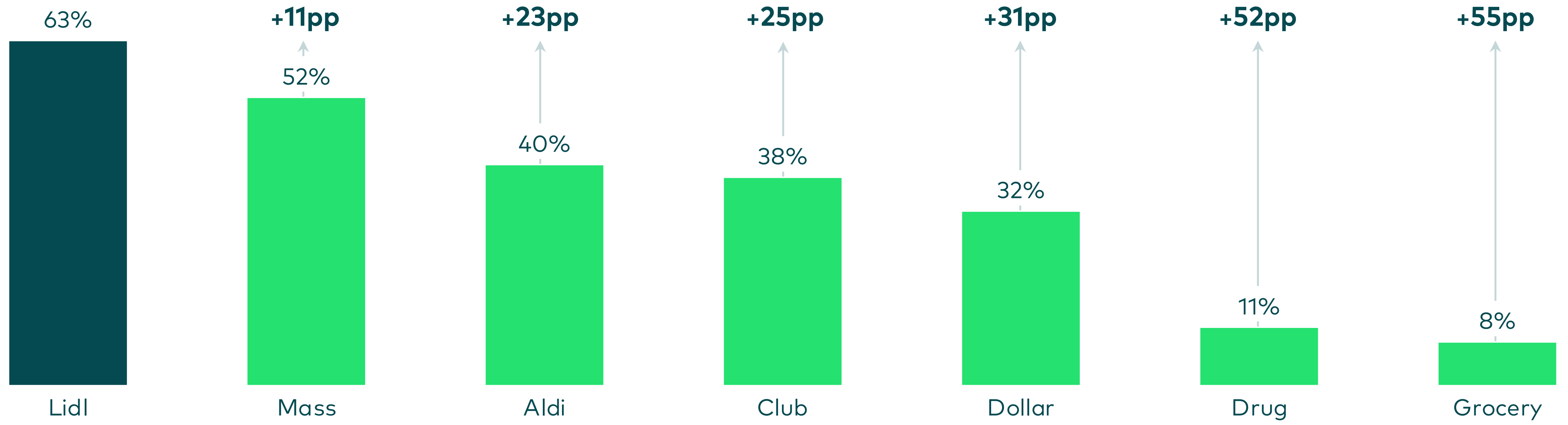
Numerator

How will Lidl react to negative shopper perceptions?

Step 2: Re-evaluate promotion strategy

- Lidl promotes general merch more than any other FMCG retail format
- Aldi, by contrast, is already established and is expanding into fresh and organic foods to capture more stock-up trips

Share of Promotions Run on General Merch Department, by Retailer / Channel



Source: Numerator Promotions Intelligence, 52 Weeks Ending 8/25/2018

Numerator

How can I take action?

Numerator

How can I take action?

If you are a manufacturer…

- Offer right size, right price to meet consumer expectations
- Important to differentiate from small box private label offerings

If you are a Small Format retailer…

- Ensure assortment is optimized to attract maximum trips
- Continue convenient shopping experiences to stand out from larger retailers

If you are a Large Format retailer…

- Differentiate yourself from small box with a ~~larger~~ better assortment
- Seek opportunities to make shopping more convenient for smaller trips
- Offer value-added private label that provides value on unique items

Numerator

Next Steps

UNDERSTAND SMALL FORMAT SHOPPERS

- Do small format stores appeal to certain types of households?
- Or is the appeal more universal?

SMALL FORMAT RETAIL STRATEGIES

- Which national brands are necessary to satisfy core shopper needs? Where will a private label product suffice?
- What is the right balance between food and non-food products to operate efficiently?

WHY BEHIND THE BUY

- What are the key drivers influencing preferences among my shoppers?
- How does this differ by key categories?
- What role do certain categories have on driving trips to certain stores?

LARGE FORMAT DIFFERENTIATORS

- What is the right assortment to attract more shoppers? Which local and niche brands appeal to my shopper?
- What marketing levers will resonate to attract trips from small formats?

Work with an Numerator Consultant to answer the questions around your business needs!
hello@numerator.com

Numerator

Small Format, Big Impact

September 2018

Numerator

NEW FRONTIERS

Learn how your shopper's behavior is shifting

hello@numerator.com