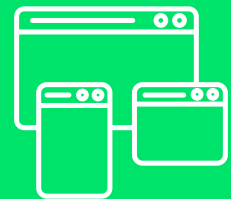


ECOSYSTEM RETAILING

How Amazon, Kroger and Walmart are Transforming Omnichannel

The most successful retailers are finding differentiated ways to deliver value, beyond just the sale of goods. They are expanding their purview to include not only more elements of the supply chain, but also additional elements in the value chain – including offers ranging from click & collect and same day delivery to more experiential and entertainment related offer components. At its most basic level, this is the definition of ecosystem retailing, a business (or person) that delivers value that leads to consumption, entertainment, assistance, convenience, and more.

While many retailers are participating in this revolution, three – Amazon, Walmart and Kroger – are playing a leading role. The ways they've gone about constructing their ecosystems provides a roadmap for both retailers and brands as they seek to create stronger connections with consumers.



CREATING CONNECTIONS

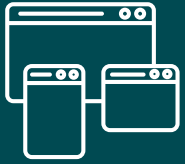
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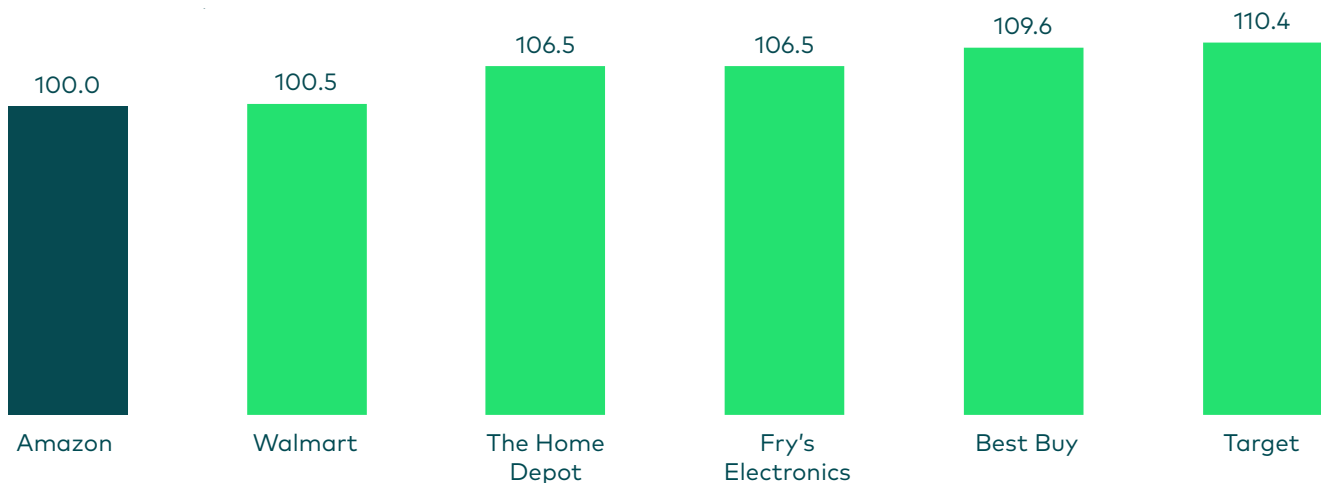
Model A: Amazon's Approach to Ecosystem Retailing

Recognizing that Amazon wasn't built in a day, over the past ten years they've created a platform designed to drive not just loyalty but habitual behavior.

They started by recognizing they wanted to create an everything store, one that offers the lowest prices. That low-price halo still exists today, even as other companies have converged on Amazon's prices. Amazon may not always have the lowest price, but their prices are low enough that they satisfy that particular consumer need state.

Online Price Comparison, Amazon Index

30 Days Ending September 9, 2018



Source: Numerator Pricing

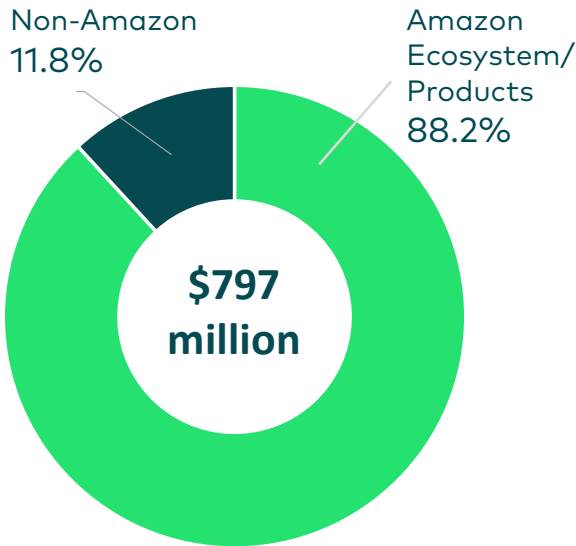
They then went to work, using Amazon Prime as the catalyst for building not just a loyalty program but rather a tether, making their services as sticky as possible. If you're getting low enough pricing, free shipping, free music, free videos, and special discounts, often powered by a device that responds to your voice and orders directly from Amazon, why would you shop anywhere else? In fairness, they also had the ability to do all of this because they've been willing to some extent sacrifice retail profitability for growth.

Unlike many (most?) other retailers, Amazon doesn't advertise other people's products — it invests in promoting itself.

Amazon then made the strategic decision that rather than advertising the products it sold, it was going to invest in advertising Amazon. Seldom do you see an Amazon ad touting low prices on TVs, or a sale on laundry detergent. Instead, in the 12 months ending June 2018 Amazon devoted almost 90% of its \$800 million in advertising spending to promoting elements of its ecosystem — whether Prime, Echo/Alexa, Fire, or other services.

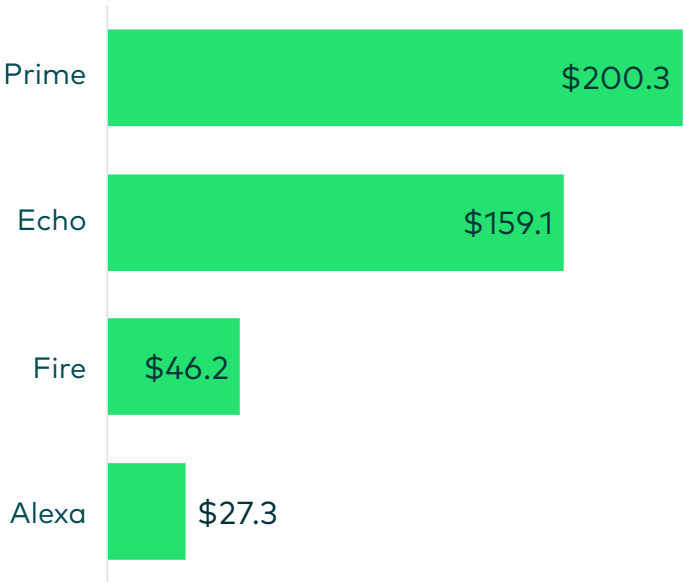
Share of Estimated Ad Spend by Content, Amazon

12 Months Ending June 2018



Estimated Ad Spend by Content, Amazon Ecosystem

12 Months Ending June 2018 (\$millions)

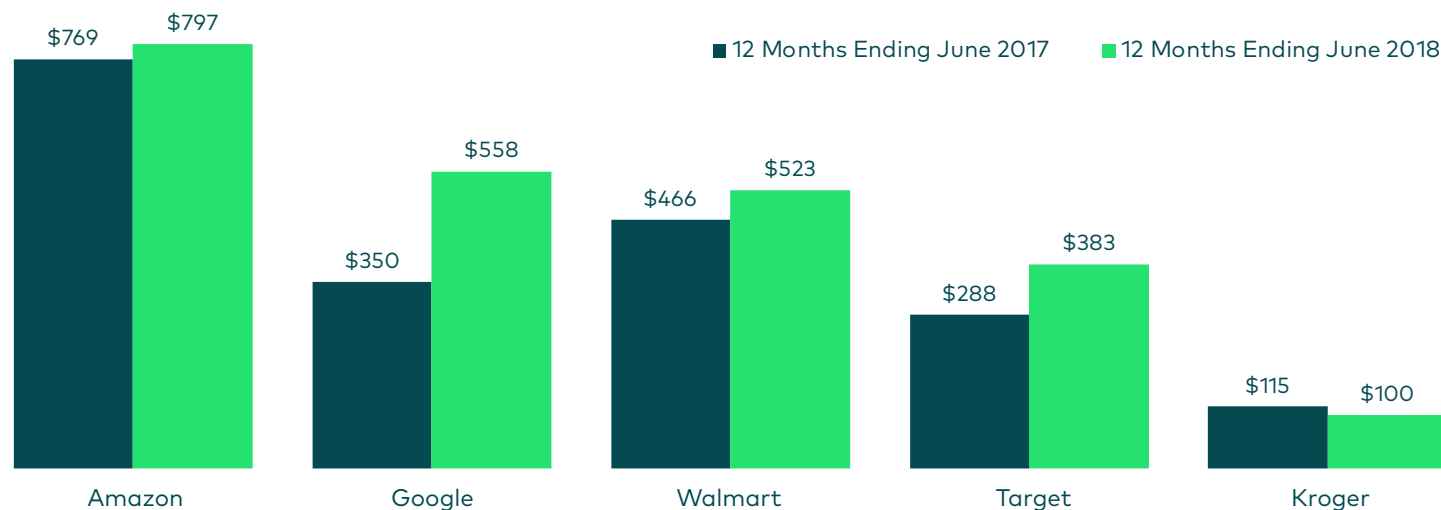


Source: Numerator Advertising

For added context, when Jeff Bezos says, "Advertising is the price you pay for having an unremarkable product or service," maybe he's bending the truth just a little bit. Amazon outspent Walmart by over 50%.

Estimated Ad Expenditures (Broadcast, Digital, Mobile)

in \$millions



Source: Numerator Advertising

Amazon has even moved beyond competing with other retailers, and is now competing with manufacturers, making its presence felt in private label across a wide range of categories. The top six private label brands offered by Amazon now account for right around a billion dollars in annual sales, and they've got over 40 active or planned private label and/or exclusive brands available (including a number of them ported over from the Whole Foods acquisition).

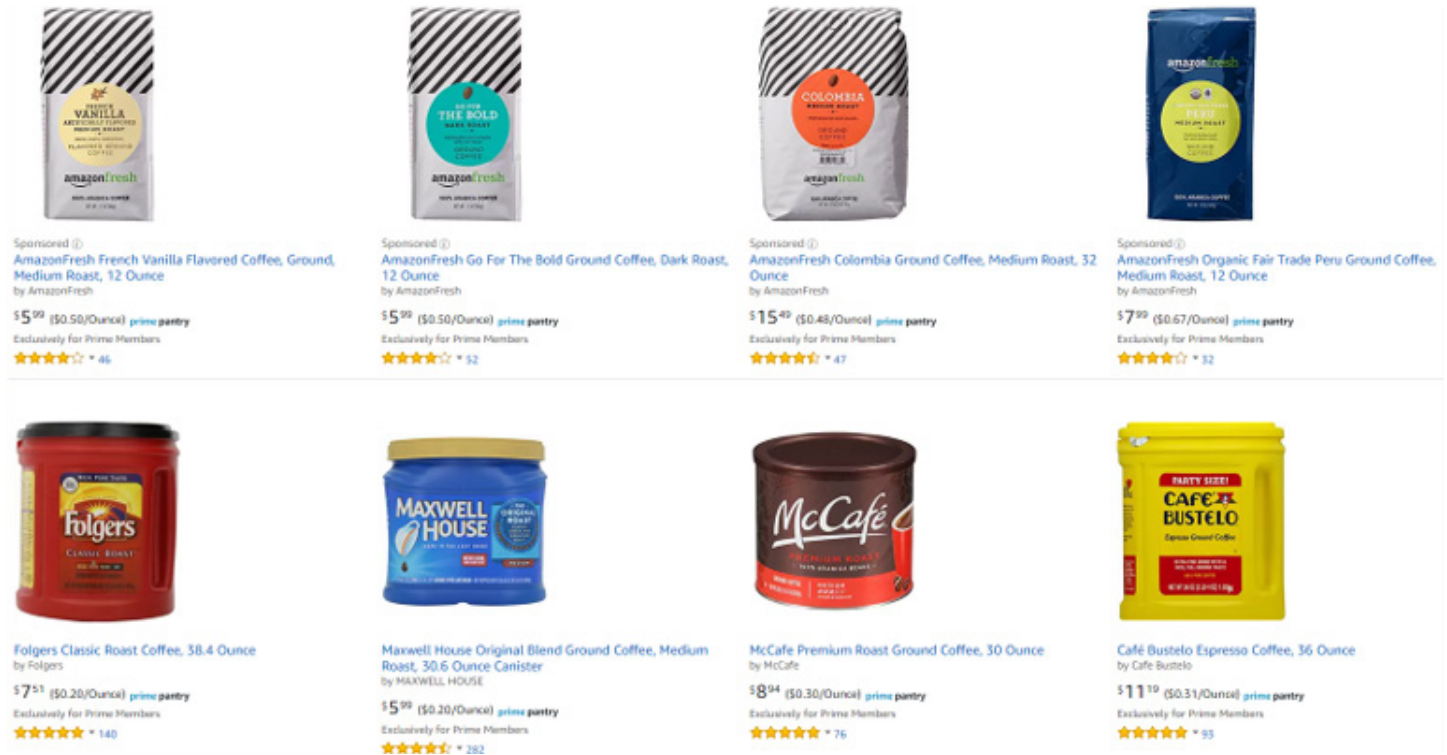
And putting aside the fact that Amazon is literally building an ad network (and is now projected to be the number three network behind Google and Facebook this year — albeit a distant third)¹, whether as part of search results or promoted listings, Amazon is increasingly treating the digital shelf like its own merchandising network as well. For example, search for coffee within Prime Pantry on the Amazon site and the first four products to appear are sponsored listings for Amazon private label coffee. That's a merchandising coup that's almost impossible to pull off in-store.

¹ www.pymnts.com/amazon/2018/digital-advertising-revenue-on-line-ads-ecommerce/

18%
of first row
search results on
Amazon Prime
Pantry featured
Amazon or Whole
Foods Private
Label products

Prime Pantry, "Coffee" Search Results

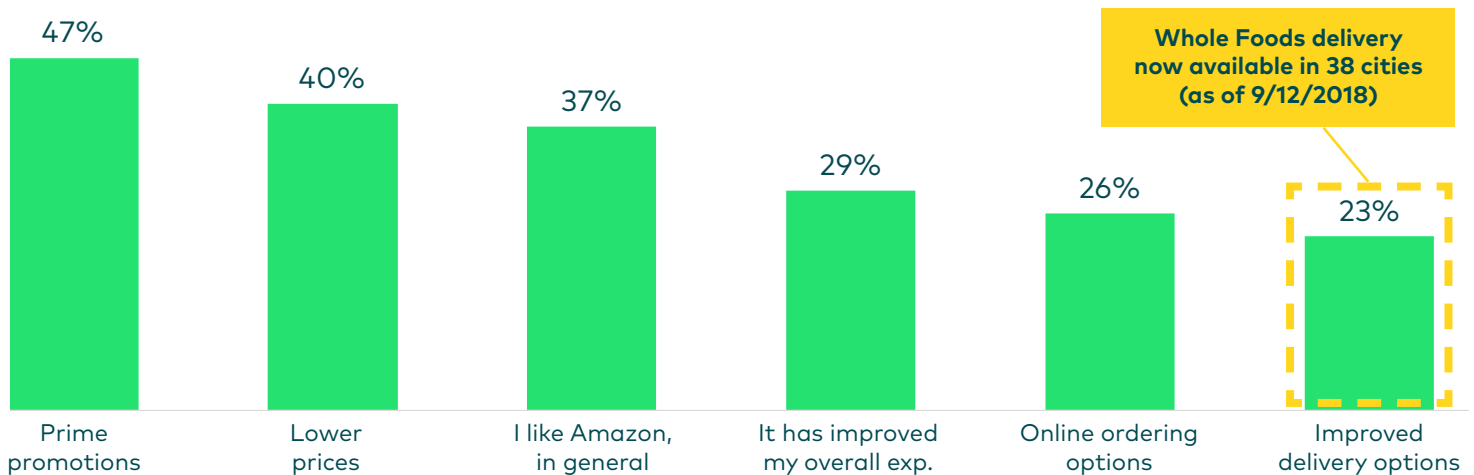
Top Two Rows



Source: Numerator Digital Shelf study, 50 unbranded category searches on Prime Pantry

Finally, with the purchase a year ago of Whole Foods, Amazon has started to bring many of these same tactics to the brick-and-mortar environment, including expedited delivery, promotions and other incentives. They've even created a promotional space appearing high up on many search results pages labeled "Top Rated from Our Brands."

Why are you shopping more at Whole Foods?



Source: Numerator's Survey, September 2018, n=1,168

And the efforts appear to be working, as it's been reported that Whole Foods is now stealing share directly from Trader Joe's.¹

AMAZON'S WHOLE FOODS IS STARTING TO STEAL TRADER JOE'S SHOPPERS

Published on August 27, 2018.



A Trader Joe's grocery store inside DeKalb Market Hall at City Point in Brooklyn. Credit: Mark Kauzlarich/Bloomberg

INTERNET SERVICES Amazon brings Whole Foods delivery to 10 new US cities

The Prime service has come to Las Vegas, New Orleans and Seattle, among others.

SMART HOME

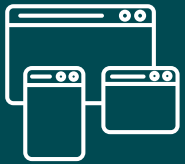
Amazon's Whole Foods is stealing customers from Trader Joe's, analysts say

This ecosystem puts immense pressure on other retailers to not only keep pace with Amazon, but to find their own unique path forward. But Walmart and Kroger aren't standing still, they are also developing their own recipes for bringing incremental value to their customers.

¹ <https://adage.com/article/cmo-strategy/amazon-s-foods-stealing-trader-joe-s-shoppers/314731/>

THE SAME TACTICS THAT GREW AMAZON ARE NOW BEING IMPLEMENTED AT WHOLE FOODS.

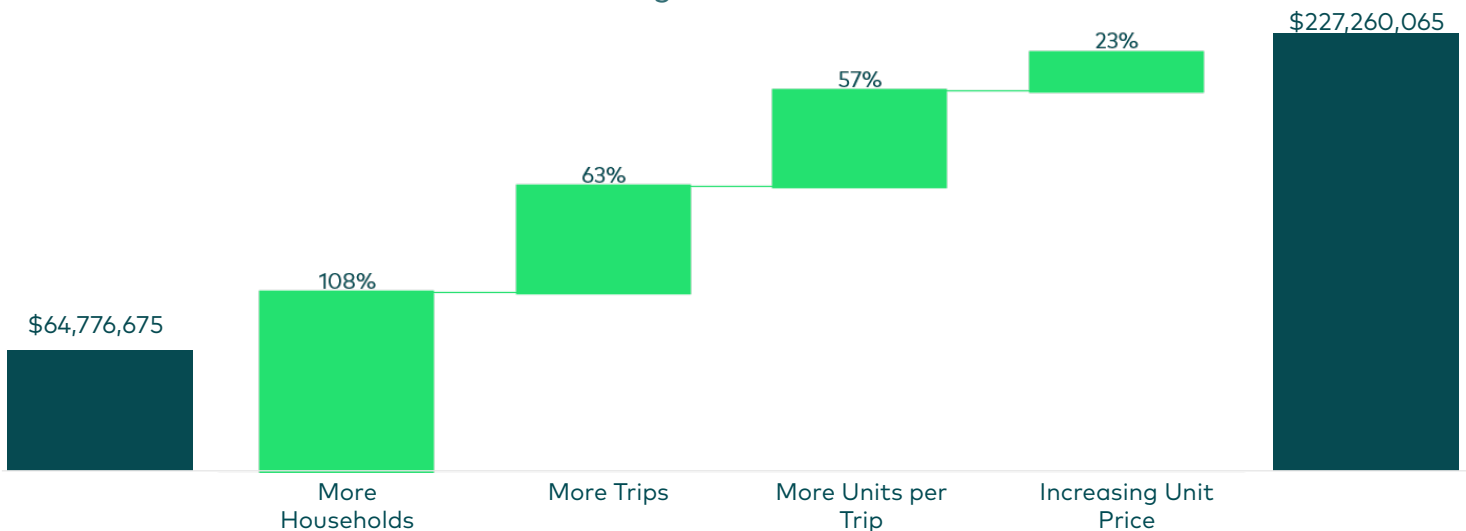




Walmart Brings Omnichannel Solution

Walmart.com Source of Growth (Produce)

12 Months Ending 8/31/2018 vs Prior Period



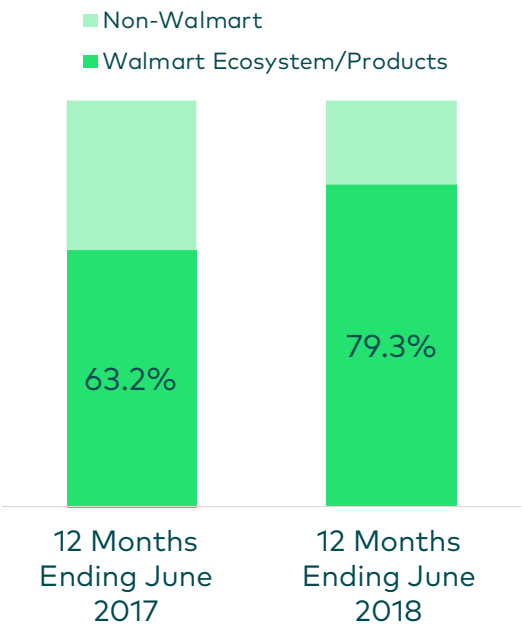
Source: Numerator's InfoScout OmniPanel

Even with the spotlight on Amazon, Walmart ecommerce sales are growing like gangbusters. Using produce as an example, it's been able to achieve the trifecta of more households, more buying occasions and increased units per occasion — at a higher unit price to boot. For produce at least, Walmart's not using ecommerce to drive prices down, they're driving prices up.

Even with the spotlight on Amazon, Walmart ecommerce sales are growing

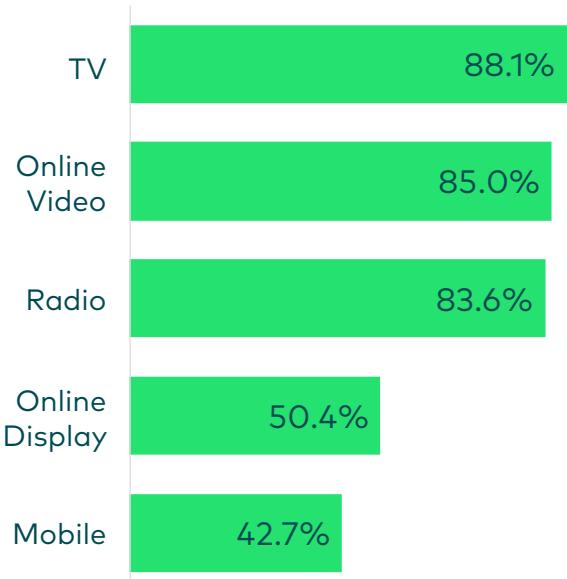
Walmart has also taken a page out of the Amazon playbook, shifting from promoting products to promoting itself. This is especially true of TV, radio and online video, with online display and mobile being used more so than other mediums to make the case to purchase specific products.

Share of Estimated Ad Spend by Content, Walmart



Walmart Ecosystem Share of Spend by Media Type

12 Months Ending June 2018



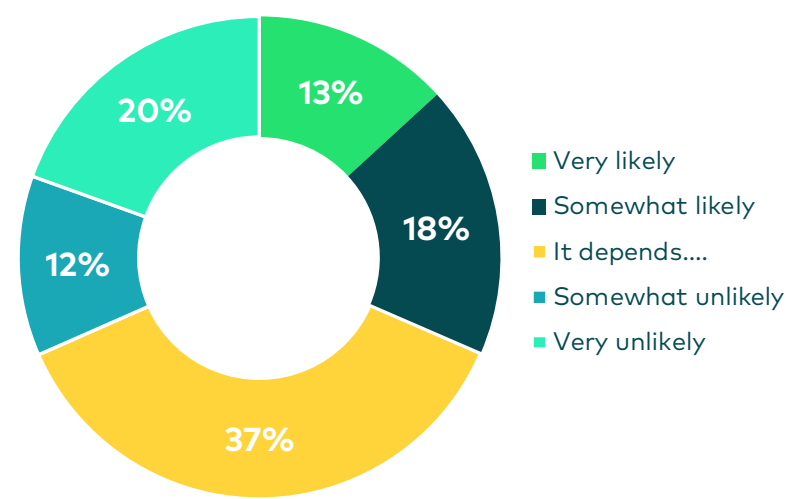
Source: Numerator Advertising

WALMART HAS TAKEN A PAGE OUT OF AMAZON'S PLAYBOOK — SHIFTING FROM PROMOTING PRODUCTS, TO PROMOTING ITSELF.



While Walmart has yet to find a membership program (a la Amazon Prime) that has achieved widespread success, with the right offer, Walmart has the potential to quickly build a subscriber base of 31+ million households.

If Walmart were to launch an annual membership program (like Amazon Prime), how likely is it you would subscribe?



- “ Because I shop there more than anywhere else because they are a one-stop shop.
- “ Walmart is close to my house and I do 95% of my shopping there.
- “ They already have lowest prices so extra perks would be worth membership.
- “ Close to home. Amazon has no store.

Source: Numerator Survey, September 2018, n=1,168

Part of this appetite for a Walmart membership program may be as simple as the fact that 90% of the U.S. population lives within 10 miles of a Walmart store.¹ And because of this, Walmart is smart to think about how their stores can serve as a differentiator versus, say, an Amazon. It’s not that far-fetched to imagine a Walmart “Prime” offer where rather than delivering products to your home, they deliver you to their (and maybe even partner) stores. Walmart is testing something very similar to this right now, in partnership with Waymo.²

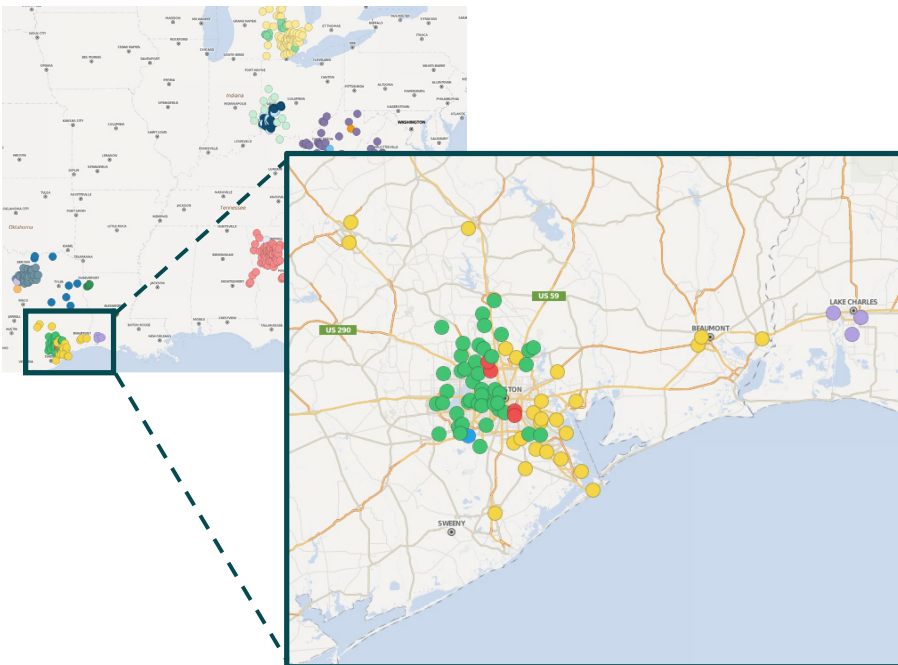
1 <https://www.livemint.com/Companies/Uq2cw0QQhBkJ8mIOPClyfM/Walmart-discovers-why-the-last-mile-is-the-hardest.html>
2 <https://blog.walmart.com/innovation/20180725/meet-waymo-your-new-self-driving-grocery-chauffeur>

Kroger Works Harder to Sell Itself

For Kroger, ecosystem thinking also starts with its stores — and the role they play in their community. Kroger's banners tailor their promotional assortments and pricing to varying degrees to address nuances in local preferences. Because for a company with brick and mortar stores, being localized is one of the big differential advantages available versus online and mass merchants.

Kroger Houston - Flyer Versioning

Week of 8/26/2018



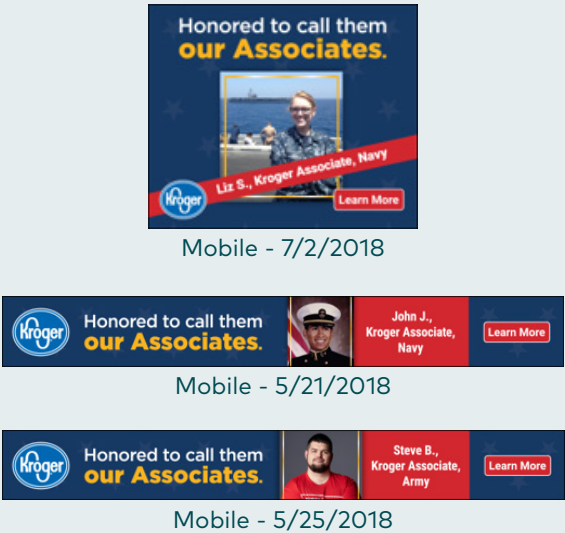
Kroger's banners tailor their promotional assortments and pricing to varying degrees to address nuances in local preferences.



Source: Numerator store-level promotions data, Due to regulation differences, adult beverages considered only on presence/non-presence basis, agnostic of brand, size, and offer type.

Kroger doesn't just pay lip service to being part of the community, or only tailor their pricing and promotions. In fact, they've customized the in-store experience, whether calling out store associates or serving the unique financial needs of local communities, to a greater degree than most other national retailers.

Acknowledgement of Store Associates



Serving Unique Financial Needs of Local Communities

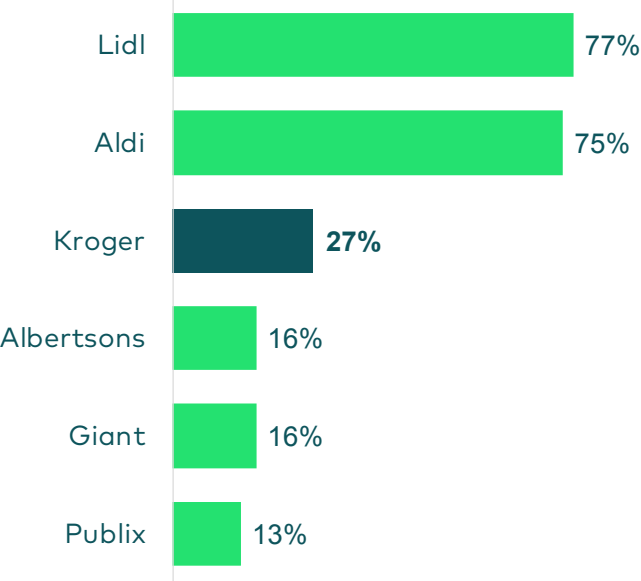


Source: Numerator Advertising

The credibility that Kroger has built by being an active community participant translates into how it promotes itself. While it may be more product-focused than, say, Amazon or Walmart, Kroger has put a disproportionate effort into its private label selection, trailing only Lidl and Aldi (which primarily stock store brands) among full-offer grocers in terms of the volume of its feature ad promotions devoted to private label products.

Private Label Share of Feature Ads

52 Weeks Ending 8/25/18



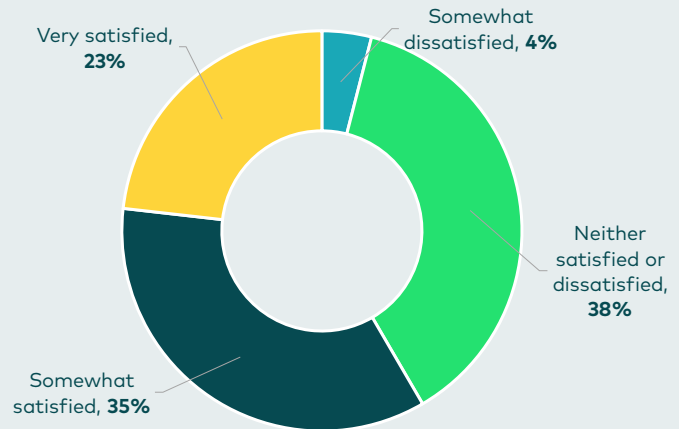
Source: Numerator Promotions

Not surprisingly, Kroger has also pivoted to focus increasingly on more health-and-wellness oriented products and services. They've achieved \$1 billion of annual revenue in its organic produce alone, using its health orientation to distinguish its offer even further.¹ And the results is consumers who are overall very satisfied with the organic and health-conscious options available.

Not shying away from omnichannel, Kroger is actively promoting the use of Grocery Pickup (what used to be called ClickList) and digital coupons weekly, with room for extensive growth.

¹ <https://www.prnewswire.com/news-releases/krogers-organic-produce-sales-achieve-1-billion-300591942.html>

How satisfied are you with Kroger's selection of organic, natural and other health-conscious options?



Source: Numerator Survey, September 2018, n=1,168

70% of Kroger shoppers have not used Grocery Pickup to order online for store pick-up

20% of Kroger shoppers are much more likely to use Grocery Pickup if home delivery was included — 65% are somewhat likely

Source: Numerator Survey, September 2018, n=1,168

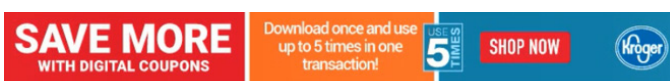
With room for substantial growth within Grocery Pickup, Kroger has also invested in Ocado (for fulfillment services — picture robots in a warehouse selecting your grocery products) and is experimenting with multiple methods of in-home delivery. Whether the future is pick-up or delivery-based, Kroger is committed to building a future that connects across the entire value chain.



Mobile - 3/29/2018

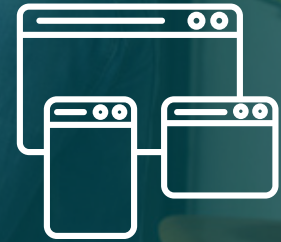


Circular - 5/23/2018



Online Display - 7/23/2018

DEVELOPING AN ECOSYSTEM MENTALITY



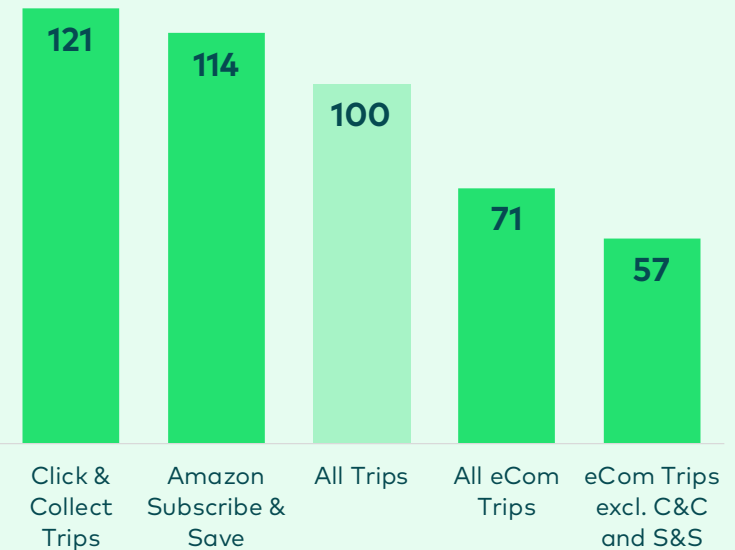
Whether you're a retailer or a brand manufacturer, the expansion from omnichannel to ecosystem thinking is in full swing.

It's apparent that this approach can work for retailers, with annual spending by Amazon Prime members exceeding that of non-Prime members by \$800 annually, based on data from Numerator's InfoScout OmniPanel.

It's also clear this is a risk-reward proposition for brands. Looking at one major CPG manufacturer as a proxy, what we saw was that omnichannel represents a huge opportunity — provided brands can become a part of a routinized trip. Whether click & collect or Amazon's subscribe & save, the key to successfully selling your brands in an omnichannel environment is the same as for getting into the best parties — you've got to be on the list! When that's the case, share of sales go up — but when online shopping in particular is ad hoc, consumers are more likely to succumb to the lure of new (and most likely lower-cost) options.

Adopting a more comprehensive view of the marketplace is the best way to anticipate ecosystem threats...and opportunities. Whether from direct competition, adjacent categories, "blind spot" sales channels and media or analog industries, comprehensive monitoring serves as a key input into both strategic and tactical planning.

CPG Manufacturer Share of Index of Compete Categories by Trip Type



Source: Numerator's InfoScout OmniPanel, Share of Dollars on Amazon S&S trips, C&C Trips, eCom Trips, All Trips, P12M ending 8/31/18

Room for ecosystem thinking is evident across all the major areas that drive company growth, whether Strategy + Innovation, Branding + Advertising, Distribution + Merchandising, or Pricing + Promotion — the growth drivers around which Numerator has organized its business. With the right approach, retail is alive and well and engaging with consumers in heretofore unconsidered ways.



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