THE FUTURE OF GROCERY

E-COMMERCE, DIGITAL TECHNOLOGY AND CHANGING SHOPPING PREFERENCES AROUND THE WORLD

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nielsen

CONTENTS

DIGITAL IS REDEFINING THE GROCERY SHOPPING EXPERIENCE

AROUND THE WORLD

- One-quarter of online respondents say they order grocery products online, and more than half (55%) are willing to do so in the future

- Growth of online grocery shopping is driven in part by the maturation of the digital natives—Millennials and Generation Z

- Willingness to use digital retailing options in the future is highest in Asia-Pacific, Africa/Middle East and Latin America regions

- E-commerce is well suited for stock-up and specialty-needs retailing because it can offer deeper product selections than may be available in brick-and-mortar stores

- Use of online or mobile coupons and mobile shopping lists are the most cited forms of in-store digital engagement in use today

- For in-store retailing, large stores have a sales volume advantage, but smaller formats are growing more rapidly

Imagine a grocery store where you can receive personal recommendations and offers the moment you step in the store, where checkout takes seconds and you can pay for groceries without ever taking out your wallet. Sound far-fetched? It's closer than you think.

Technology has fundamentally transformed the way industries such as music, books and video operate. iTunes allows consumers to cobble together personal music libraries they can carry with them wherever they go, and Amazon gives shoppers access to an extensive selection of products, user reviews and personalized recommendations based on search and purchase history. Streaming services like Netflix and Hulu and devices like Apple TV allow users to access content whenever and wherever they want.

In the consumer packaged goods (CPG) industry, change has been more evolutionary than revolutionary, but digital is redefining what it means to "go" shopping. Lines between the physical and digital worlds are blurring. Shoppers are growing accustomed to the benefits of digital in other retail settings and are beginning to expect them in grocery as well. Savvy retailers are winning by leveraging technology to enhance the shopping experience and meet consumers' evolving desires.

"The connected commerce era has arrived," said Patrick Dodd, president, global retailer vertical, Nielsen. "Consumers are no longer shopping entirely online or offline; rather, they're taking a blended approach, using whatever channel best suits their needs. The most successful retailers and manufacturers will be at the intersection of the physical and virtual worlds, leveraging technology to satisfy shoppers however, wherever and whenever they want to shop."

The Nielsen Global E-commerce and the New Retail Survey polled 30,000 online respondents in 60 countries to understand how digital technologies will shape the retail landscape of the future. We look at how consumers are using technology and offer insights about how retailers and manufacturers can use flexible retailing options to improve the shopping experience and drive increased visitation and sales across channels. We also examine retail sales data to determine how distribution and channel shopping preferences are changing around the world and how that affects what the future of retailing look likes.

ABOUT THE GLOBAL SURVEY METHODOLOGY

The findings in this survey are based on respondents with online access in 60 countries. While an online survey methodology allows for tremendous scale and global reach, it provides a perspective only on the habits of existing Internet users, not total populations. In developing markets where online penetration is still growing, audiences may be younger and more affluent than the general population of that country. In addition, survey responses are based on claimed behavior rather than actual metered data.

Where noted, the survey research is supplemented with actual behavior using Nielsen's retail sales data.

PART I

THE FUTURE OF ONLINE SHOPPING AND IN-STORE DIGITAL TECHNOLOGY

RETURN OF THE MILKMAN

Could the wave of the future be a blast from the past? In the 1950s and '60s, home delivery of milk and other daily necessities was a staple for many families in North America and Europe. In some markets, the milkman never really went out of fashion. In India, for example, the concept of a merchant delivering groceries and household staples or ready cooked meals to a home is very much alive and well. Across the globe, we're seeing a resurgence of the home-delivery model—with a twist. Consumers aren't just picking up the phone to order; increasingly, they're pulling up the retailer's webpage or using their mobile app. One-quarter of global respondents are already ordering grocery products online for home delivery, and more than half (55%) are willing to use it in the future. The milkman is back, but this time he's gone digital.

Increasingly, retailers are introducing e-commerce models that make it even easier for tech-savvy, time-crunched consumers to get the items they need. Fourteen percent of global respondents say they use an automatic online subscription service, in which orders are routinely replenished at a specified frequency, and more than half (54%) are willing to do so in the future. In 2011, Tesco (Homeplus) introduced the first virtual supermarket in a South Korean subway system, and the model has spread to other markets. Today, 13% of global respondents say they're already using a virtual store and nearly six-in-10 (58%) are willing to use them when they become available.

A smaller number of consumers are using "click and collect" services in which they order groceries online for pickup at a store or other location. Just over one-in-10 global respondents say they order groceries online and pick them up in-store or using a drive-thru (12% each). Slightly fewer (10%) order online for curbside pick-up. More than half of global respondents, however, are willing to use these online options in the future (57% for in-store, 55% for drive-thru and 52% for curbside pickup).
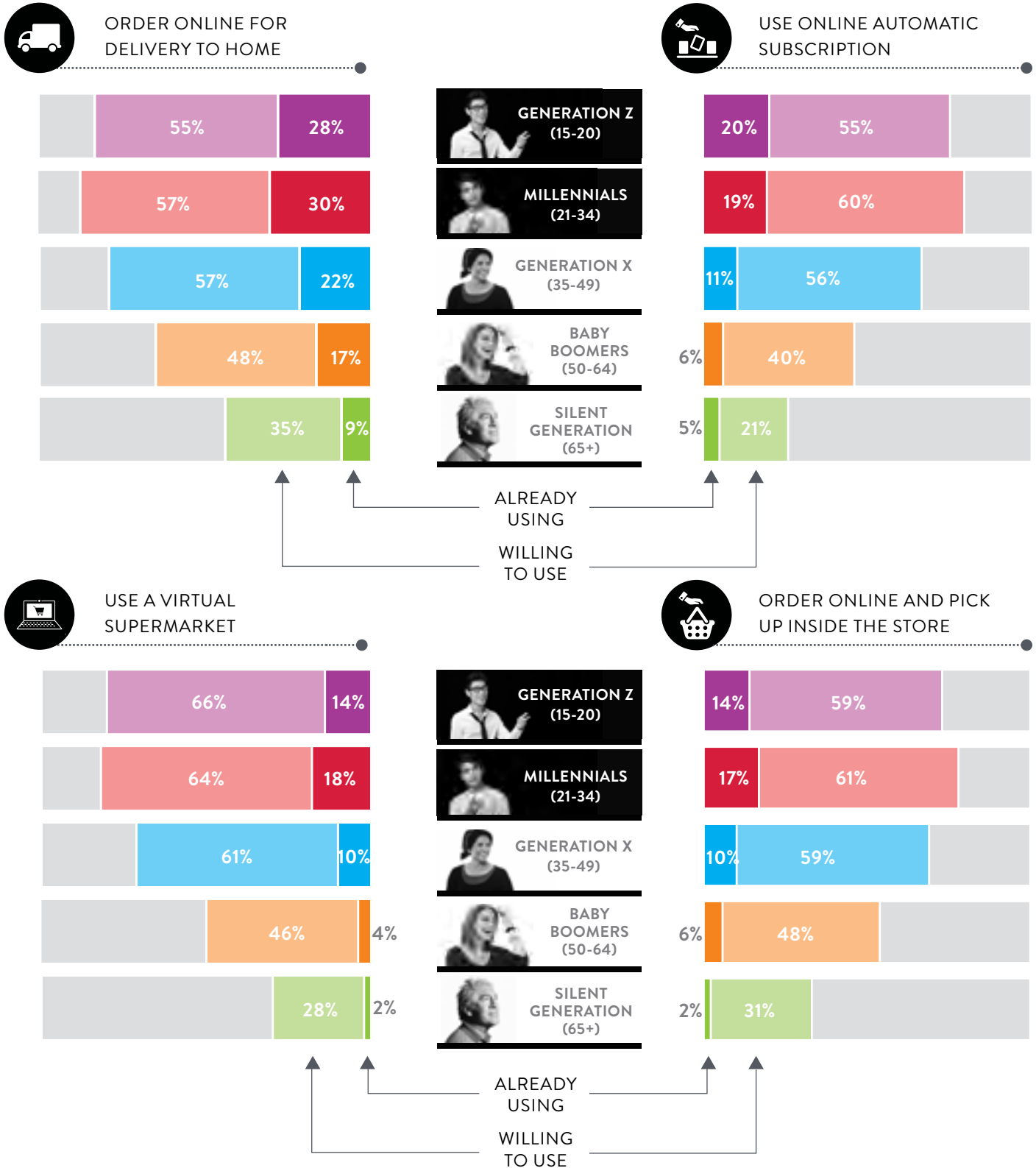
"The last mile of e-commerce presents sizeable logistics and cost concerns that have not yet been solved," said Dodd. "Therefore, retailers need to experiment with clever 'delivery' options that circumvent these issues. Retailers in France and Italy, where labor costs are high, have seen some success with 'click and drive' initiatives, and we expect growth will continue in the future, especially as retailers strengthen their online offering and framework."

The growth of online CPG sales has been driven in part by the maturation of digital natives, the consumers who grew up with digital technology (the Millennials and now Generation Z). These consumers have an unprecedented enthusiasm for and comfort with technology, and online shopping is a deeply ingrained behavior. Current usage of six e-commerce options (home delivery, in-store pickup, drive-through pickup, curbside pickup, virtual supermarket and automatic subscription) is greatest among the youngest respondents, and they are also the most willing to use all of the e-commerce options in the future. For example, 30% of Millennials (ages 21-34) and 28% of Generation Z (ages 15-20) respondents say they're ordering groceries online for home delivery, compared with 22% of Generation X (ages 35-49), 17% of Baby Boomers (ages 50-64) and 9% of Silent Generation (ages 65+) respondents. Younger respondents are also the most willing to use all of the e-commerce options in the future.

"Millennials are at the beginning of their careers and are starting to form households, while the oldest members of Generation Z will soon be graduating college and joining the workforce," said Dodd. "These generations will shape our economy for decades to come. Therefore, it is critical that retailers and manufacturers understand how these consumers are using technology and include digital touch points along the entire path to purchase."

MILLENNIALS AND GENERATION Z ARE THE MOST AVID ONLINE GROCERY SHOPPERS

PERCENT USING/WILLING TO USE E-COMMERCE OPTIONS

ORDER ONLINE FOR DELIVERY TO HOME

Generation	Already Using	Willing to Use
GENERATION Z (15-20)	28%	55%
MILLENNIALS (21-34)	30%	57%
GENERATION X (35-49)	22%	57%
BABY BOOMERS (50-64)	17%	48%
SILENT GENERATION (65+)	9%	35%

USE ONLINE AUTOMATIC SUBSCRIPTION

Generation	Already Using	Willing to Use
GENERATION Z (15-20)	20%	55%
MILLENNIALS (21-34)	19%	60%
GENERATION X (35-49)	11%	56%
BABY BOOMERS (50-64)	6%	40%
SILENT GENERATION (65+)	5%	21%

USE A VIRTUAL SUPERMARKET

Generation	Already Using	Willing to Use
GENERATION Z (15-20)	14%	66%
MILLENNIALS (21-34)	18%	64%
GENERATION X (35-49)	10%	61%
BABY BOOMERS (50-64)	4%	46%
SILENT GENERATION (65+)	2%	28%

ORDER ONLINE AND PICK UP INSIDE THE STORE

Generation	Already Using	Willing to Use
GENERATION Z (15-20)	14%	59%
MILLENNIALS (21-34)	17%	61%
GENERATION X (35-49)	10%	59%
BABY BOOMERS (50-64)	6%	48%
SILENT GENERATION (65+)	2%	31%

ALREADY USING

WILLING TO USE

Source: Nielsen Global E-commerce and the New Retail Survey, Q3 2014

ONLINE GROCERY SHOPPING IS PARTICULARLY POPULAR IN ASIA-PACIFIC

Continued increases in mobile adoption and broadband penetration, particularly in the developing regions, have also helped boost online grocery sales. Regionally, Asia-Pacific consistently exceeds the global average for adoption of all online retailing options. Ordering online for home delivery is the most commonly preferred flexible retailing option in the region, with particularly high usage in China. More than one-third (37%) of Asia-Pacific respondents, and even more in China (46%), say they use an online ordering and delivery service. Adoption levels for online automatic subscriptions are also particularly high in this region (22% vs. 14% globally), with China once again leading the way (30%).

Sales data reflect the phenomenal online growth of FMCG purchases in China. Between 2013 and 2014, e-commerce sales increased 40% for 17 major Nielsen tracking categories. Food is the primary growth engine. For example, while e-commerce's share of the liquid milk category is small (2%), it nearly doubled in size (+91%) between 2013 and 2014, leading the online growth of all FMCG categories. Chocolate is another food category that has performed particularly well online; in 2014, online chocolate sales contributed 17% of total category sales, with +59% year-over-year growth.

Why is online shopping for FMCG so prevalent in Asia-Pacific compared with the rest of the world? A few factors are at play. First, the region's rapid urbanization and high population density make the home delivery model economically viable, particularly when coupled with low labor costs, as has been the case in China. In addition, booming smartphone ownership and usage have created huge mobile commerce opportunities. Finally, in China in particular, food safety concerns have driven consumers in search of high-quality goods online.

Willingness to use digital retailing options in the future is highest in the developing markets in the Asia-Pacific (60% on average), Latin America (60%) and Africa/Middle East regions (59%), and trails in Europe (45%) and North America (52%).
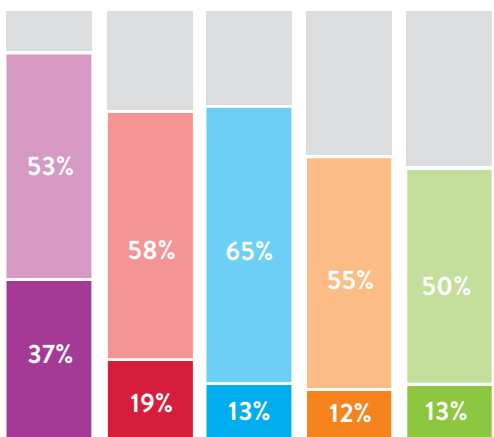
E-COMMERCE POTENTIAL IS GREATEST IN ASIA-PACIFIC AND AFRICA/MIDDLE EAST

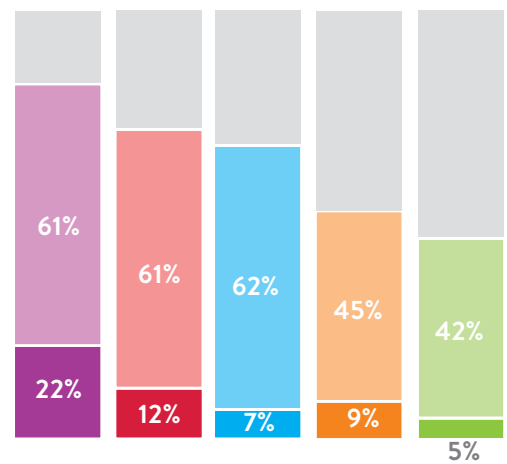## PERCENT USING/WILLING TO USE E-COMMERCE OPTIONS

● ASIA-PACIFIC   ● MIDDLE EAST/AFRICA   ● LATIN AMERICA   ● NORTH AMERICA   ● EUROPE
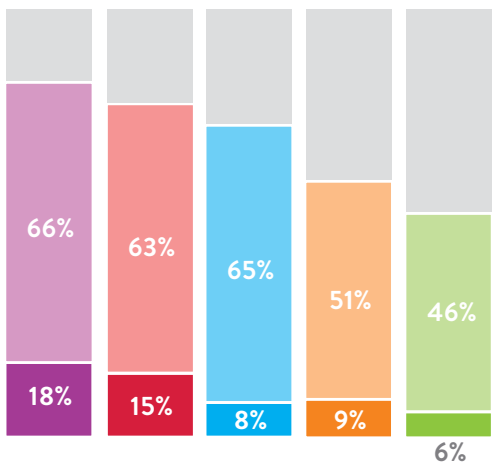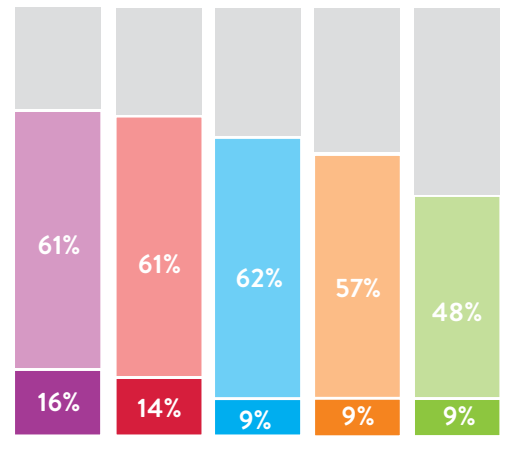
ORDER ONLINE FOR DELIVERY TO HOME

	WILLING TO USE	ALREADY USING
Asia-Pacific	53%	37%
Middle East/Africa	58%	19%
Latin America	65%	13%
North America	55%	12%
Europe	50%	13%

USE ONLINE AUTOMATIC SUBSCRIPTION

	WILLING TO USE	ALREADY USING
Asia-Pacific	61%	22%
Middle East/Africa	61%	12%
Latin America	62%	7%
North America	45%	9%
Europe	42%	5%

USE A VIRTUAL SUPERMARKET

	WILLING TO USE	ALREADY USING
Asia-Pacific	66%	18%
Middle East/Africa	63%	15%
Latin America	65%	8%
North America	51%	9%
Europe	46%	6%

ORDER ONLINE AND PICK UP INSIDE THE STORE

	WILLING TO USE	ALREADY USING
Asia-Pacific	61%	16%
Middle East/Africa	61%	14%
Latin America	62%	9%
North America	57%	9%
Europe	48%	9%

Source: Nielsen E-commerce and the New Retail Survey, Q3 2014

WHEN IT COMES TO E-COMMERCE, PRODUCT SELECTION MATTERS

Virtual baskets don't necessarily mirror physical ones. In fact, the relationship between the two is often an inverse one. In the U.S., for example, the mix of online product sales is roughly 60% non-food to 40% food, the exact reverse of the total in-store CPG picture, which is about 60% food and 40% non-food.

"Consumers are embracing the idea of buying certain packaged goods online, but some categories are simply better suited for e-commerce than others," said Dodd. "While certain fast-moving consumer goods categories will serve as 'on-ramp starter' e-commerce categories, as we've seen in Asia-Pacific, adoption rates will vary market by market. Understanding what consumers are buying both on and offline allows you to prioritize digital initiatives and take action with the categories that drive in-store trip count and basket size."

So which categories have the most potential for digital success? Nielsen's research about digital shopping identified two barriers and two enablers that help determine which categories are best poised for e-commerce success (see next page). Stock-up categories like personal care and household products are prime selections for e-commerce inventory, while immediate-use items like fresh and frozen foods, condiments and beverages will be slower in adoption. However, there is tremendous opportunity among niche consumer segments—especially in the healthy eating space and other categories that may be more difficult to find on in-store shelves.

E-commerce is well suited to specialty retailing because it allows companies to offer greater product selection in a category than would typically be available in brick-and-mortar stores. Online retailers can do well by fulfilling unique customer needs, such as the desire for better-for-you foods. Nielsen research shows that today's shoppers are seeking fresh, natural and minimally processed foods with beneficial ingredients that help fight disease and promote good health.

A number of specialty retailers have emerged in the health and wellness space, from national online grocery delivery services with extensive fresh sections to local produce delivery services. Additionally, specialized meal delivery services have emerged to provide consumers the ingredients (pre-measured for a family of two or four) to make selected healthy meals in their homes. There is great potential for online retailers that offer consumers a wide variety of good-for-you foods and provide guidance for consumers aspiring to healthier lives.

STOCK-UP AND PRICE-SENSITIVE CATEGORIES ARE BEST POISED FOR E-COMMERCE SUCCESS

ENABLERS

BARRIERS

STOCK-UP

Products with a steady consumption rate and long shelf life are well suited to online purchasing.

GLOBAL ONLINE PURCHASE INTENT (NEXT SIX MONTHS):

BODY WASH	33%
SHAMPOO / CONDITIONER	31%
TOOTHPASTE	31%
COSMETICS	27%
LAUNDRY DETERGENT	27%
DISH SOAP	25%
TOILET PAPER	25%

PRICE

Categories with a high price-to-weight ratio, which may have lower shipping costs, and those with high profit margins that allow room for discounting are well suited to e-commerce.

GLOBAL ONLINE PURCHASE INTENT (NEXT SIX MONTHS):

BABY WIPES/DIAPERS	12%*
DOG FOOD (DRY)	12%*
CAT FOOD (DRY)	8%*
BABY FOOD/FORMULA	8%*

*Sample is not just based on those who have a child or own a pet

URGENCY

For some categories, convenience is paramount. Shoppers want to buy and consume a product immediately, without waiting for deliveries to arrive. In these cases, the nearest store is the best option.

GLOBAL ONLINE PURCHASE INTENT (NEXT SIX MONTHS):

PAIN RELIEVERS	13%

INSPECTION

Spoilage is a concern for some categories, particularly perishable products. In addition, many consumers want to touch, smell, see or try products before purchasing. This desire drives consumers to the store and they tend to buy other items they need when there.

GLOBAL ONLINE PURCHASE INTENT (NEXT SIX MONTHS):

FRESH VEGETABLES	16%
FROZEN DESSERT	11%
FROZEN SEAFOOD	11%
FROZEN VEGETABLES	10%
FROZEN APPETIZERS	5%

Source: Nielsen Global E-commerce and the New Retail, Q3 2014

E-COMMERCE WILL GROW, BUT BRICK-AND-MORTAR WILL STILL DOMINATE

Will clicks replace bricks? Not anytime soon. Online shopping has a number of benefits, but physical stores also have strong key advantages over e-commerce—especially for fast-moving consumer goods.

Aside from the obvious in-store benefit of fulfilling immediate shopping needs without paying shipping fees, there are powerful sensory experiences—smelling freshly baked bread and seeing and feeling the vibrant color and texture of perfectly ripe strawberries—that is virtually impossible to replicate online. It's also difficult to match the power of human interaction and the thrill of unplanned discovery that physical stores can provide. Just as important, for many consumers, grocery shopping can be a fun activity that generates positive feelings. In fact, the majority of global respondents (61%) believe going to the grocery store is an enjoyable and engaging experience. A similar percentage (57%) thinks grocery shopping in a retail store is a fun day out for the family.

"While the majority will continue to shop for the bulk of their grocery purchases in store, retailers need to ensure the experience is pleasant, efficient and relevant to keep shoppers coming back," said Dodd. "Infusing technology in the in-store experience will be an important enabler in this process, helping retailers address shoppers' biggest frustrations. But make no mistake, technology will never be a substitute for the basic elements of a great shopping experience, including innovative store design, ample selection, executional excellence and exceptional service."

STRATEGIES FOR E-COMMERCE SUCCESS

While brick-and-mortar stores dominate the grocery shopping experience, e-commerce is a growing business that is still in its nascent stage in many parts of the world. Success in e-commerce does not come easy, but early movers often establish difficult-to-overcome positions and advantages. So how can retailers and manufacturers capitalize on this opportunity?

- **Establish credibility and exceed expectations:** Many consumers are hesitant to try online shopping, so it's critical that retailers exceed consumers' expectations during every interaction, especially the first. To ease concerns about product quality, retailers should offer quality assurance programs that provide recourse for items damaged in transit or that do not meet consumers' expectations. Orders must be delivered or ready for pick-up within the specified time period, and retailers must alert consumers immediately if their order cannot be fulfilled as expected.

- **Make it easy:** Functionality and ease of use should be top priorities in website and app design, help should be readily available, and the checkout process should be simple and secure. If shoppers run into slow load times or confusing/difficult-to-use pages, they could abandon their digital shopping carts prior to purchase.

- **Know the market:** Demographics, operating costs, the competitive landscape and consumer preferences vary greatly by market. One size doesn't fit all, so retailers should consider the operating environment and cater strategies to the local market.

- **Understand shopping occasions and consider specializing:** Many modern retail models take a "full-service" approach, attempting to serve all trip types and categories. But as we've seen, some categories and shopping occasions are better suited to e-commerce than others. Settling for a smaller piece of the pie may be more profitable. Retailers should consider a limited

offering model, focusing on stock-up trips within a specific shopping segment, such as baby goods, dry goods or personal care items. If retailers wish to expand their product selection, they can consider partnering with other sites.

- **Consider alternative approaches to ordering and distribution:** Experiment with formats and features that boost basket size while adding value for customers. Also, the costs and logistics of home delivery and click and collect models can be extremely daunting. Retailers should consider alternative approaches to distribution, such as working with third-party specialists. Similarly, manufacturers should experiment with order placement services, and carefully weigh distribution options to determine if they should own fulfillment or leave it to distribution experts.

BRIDGING DIGITAL WITH IN-STORE

E-commerce is only part of the digital picture. A complete digital strategy includes interaction at every point along the path to purchase, including finding stores, making lists, checking prices, researching products, sharing content and purchasing. These touch points occur both in and out of stores, and consumers are increasingly using technology to simplify and improve the process.

In-store digital enablement options can bring the ease, convenience and personalization of online into brick-and-mortar stores. Instituting digital strategies into the in-store experience is not just nice-to-have, these options can increase dwell time, engagement levels, basket size and shopper satisfaction.

"At present, shoppers do all of the work putting the pieces together to arrive at their final purchase decision," said Dodd. "In a competitive retail environment, retailers and manufacturers can add value and differentiation by providing digital tools to help consumers take control of their shopping experience while also increasing sales potential. Mobile in particular can tip the scales in favor of increased shopper control, empowering them to shape the shopping experience more than ever before."

Retailers have a lot of room to grow when it comes to in-store digital enablement options, such as mobile coupons, lists and shopping apps, and in-store Wi-Fi availability. Today, only a small percentage of consumers around the world is already using such features, but willingness to use them in the future is high.

Use of online or mobile coupons (18%) and mobile shopping lists (15%) are the most cited forms of in-store digital engagement in use today among global respondents, with about two-thirds willing to use them in the future (65% and 64%, respectively). Downloading a retailer/loyalty program app on a mobile phone to receive information or offers is used by 14% of global respondents, and 63% say they're willing to use one when it is available. About one-in-10 global respondents say they login to store Wi-Fi to receive information or offers (12%), use in-store computers to view extended product ranges (11%) or scan QR codes to access more information (11%). Roughly two-thirds, however, are willing to use these options in the future (66%, 68% and 65%), respectively.

Among the online respondents in Nielsen's survey, use of many of these in-store digital enablement options is highest in Asia-Pacific. This region also exceeds the global average for willingness to use in-store options when they become available. Current usage is low in Latin America, but enthusiasm for them is high. More than seven-in-10 Latin American respondents say they're willing to use the in-store digital enablement options in the future. Mobile coupon usage is highest in North America (26%). European respondents have the lowest claimed usage levels for in-store digital engagement, but more than half (average 55%) say they are willing to try the options in the future.
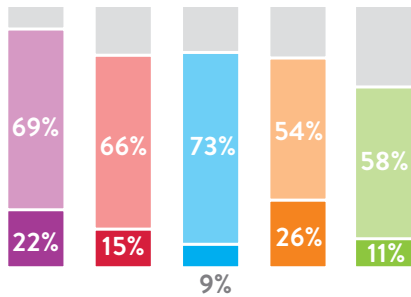
IN-STORE DIGITAL ENABLEMENT HAS ROOM TO GROW

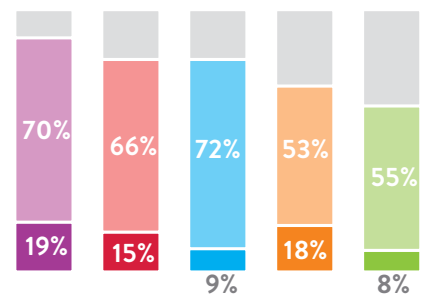PERCENT USING/WILLING TO USE IN-STORE DIGITAL ENABLEMENT OPTIONS

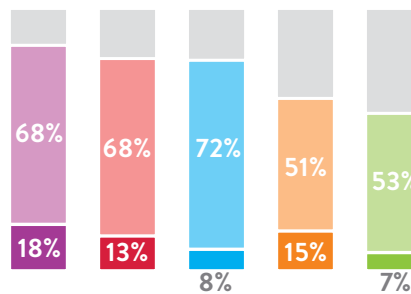● ASIA-PACIFIC ● MIDDLE EAST/AFRICA ● LATIN AMERICA ● NORTH AMERICA ● EUROPE

USE ONLINE OR MOBILE COUPONS

	Willing to use	Already using
Asia-Pacific	69%	22%
Middle East/Africa	66%	15%
Latin America	73%	9%
North America	54%	26%
Europe	58%	11%

USE ONLINE OR MOBILE SHOPPING LISTS

	Willing to use	Already using
Asia-Pacific	70%	19%
Middle East/Africa	66%	15%
Latin America	72%	9%
North America	53%	18%
Europe	55%	8%

DOWNLOAD RETAILER APP OR LOYALTY PROGRAM APP TO THEIR MOBILE PHONE TO RECEIVE INFORMATION OR OFFERS

	Willing to use	Already using
Asia-Pacific	68%	18%
Middle East/Africa	68%	13%
Latin America	72%	8%
North America	51%	15%
Europe	53%	7%

LOGIN TO STORE WIFI WITH THEIR MOBILE TO RECEIVE MORE INFORMATION OR OFFERS

	Willing to use	Already using
Asia-Pacific	72%	15%
Middle East/Africa	68%	14%
Latin America	73%	9%
North America	54%	12%
Europe	55%	5%
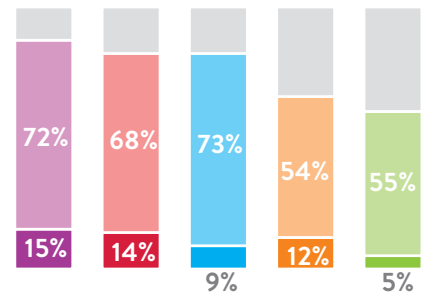
USE IN-STORE COMPUTERS TO VIEW EXTENDED RANGES OF PRODUCTS AVAILABLE FROM THAT RETAILER ONLINE

	Willing to use	Already using
Asia-Pacific	74%	14%
Middle East/Africa	71%	12%
Latin America	72%	7%
North America	60%	10%
Europe	57%	5%
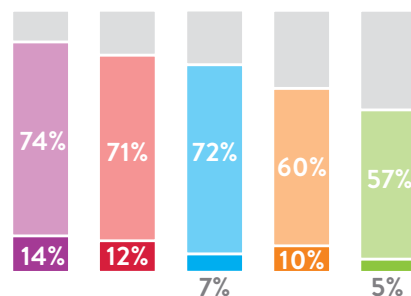
SCAN QR CODES WITH MOBILE PHONE TO ACCESS MORE DETAILED PRODUCT INFORMATION

	Willing to use	Already using
Asia-Pacific	73%	15%
Middle East/Africa	67%	12%
Latin America	73%	7%
North America	55%	12%
Europe	54%	7%
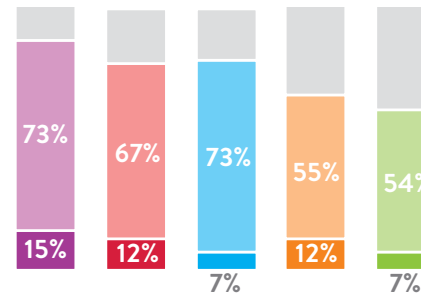
Source: Nielsen E-commerce and the New Retail Survey, Q3 2014

TECHNOLOGY-BASED IN-STORE CONVENIENCE OPTIONS

Thinking about ways to improve the in-store experience? Put more control in the hands of your customers—literally.

Today, 22% of global respondents say they use self-checkout and nearly two-thirds (65%) are willing to do so in the future. Current usage is particularly high in the countries where self-checkout has been available for several years. For example, the technology was first introduced in the U.S. in 1992. Not coincidentally, North America also has the highest percentage of respondents who say they're using self-checkout today (41%, nearly double the global average).

Using a hand-held store scanner to purchase products as they shop to avoid checkout lines is used today by only 12% of global respondents, but 70% are willing to give it a try when it is available—the highest percentage of the 14 flexible retail options included in the survey.

"Time-starved consumers want to use technology to make shopping faster, easier and more efficient," said Dodd. "As we've seen with self-checkout, one of the more mature flexible retailing options included in the survey, as more retailers incorporate these options in their in-store and online offerings, adoption rates will likely increase."
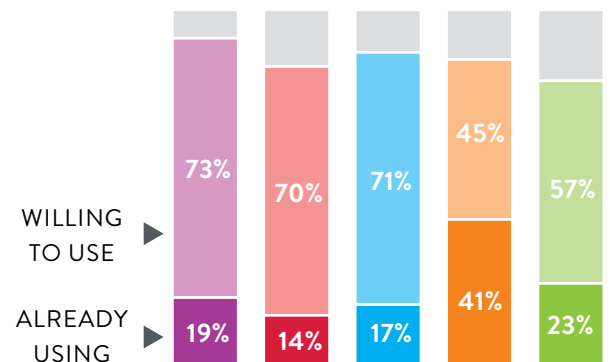
TIME-SAVING OPTIONS HAVE STRONG APPEAL AROUND THE WORLD

PERCENT USING/WILLING TO USE TECHNOLOGY-BASED CONVENIENCE OPTIONS

- ASIA-PACIFIC
- MIDDLE EAST/AFRICA
- LATIN AMERICA
- NORTH AMERICA
- EUROPE

USE SELF-SERVICE CHECKOUTS

	ASIA-PACIFIC	MIDDLE EAST/AFRICA	LATIN AMERICA	NORTH AMERICA	EUROPE
WILLING TO USE	73%	70%	71%	45%	57%
ALREADY USING	19%	14%	17%	41%	23%

USE HAND-HELD STORE SCANNER TO PURCHASE PRODUCTS AS THEY SHOP

	ASIA-PACIFIC	MIDDLE EAST/AFRICA	LATIN AMERICA	NORTH AMERICA	EUROPE
WILLING TO USE	76%	68%	75%	65%	63%
ALREADY USING	14%	15%	8%	10%	11%
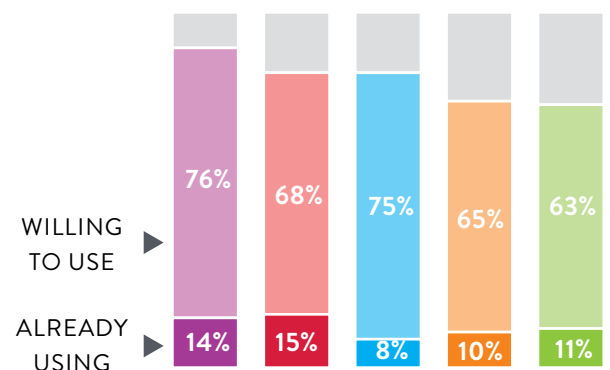
Source: Nielsen E-commerce and the New Retail Survey, Q3 2014

PART II
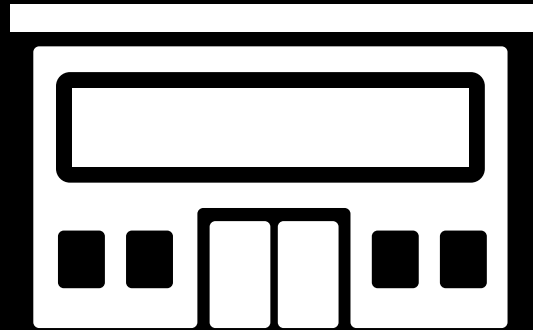
CHANNEL
SHIFTING AND
THE SHARE OF
TRADE AROUND
THE WORLD

LARGE STORES LEAD THE WAY, BUT SMALLER FORMATS ARE GROWING MORE RAPIDLY

In addition to digital, evolving consumer tastes are also transforming the retail landscape. Which channels are consumers shopping most and what are they buying there? Are modern trade outlets replacing traditional trade in developing markets or is the opposite true? A review of sales trends for select fast-moving consumer goods categories[1] across the world reveal that when it comes to trade channel importance, all countries are not created equal.

Globally, the trade channel mix is becoming more fragmented as consumers shift toward smaller store formats. On a value basis, large supermarkets and hypermarkets account for just over half (51%) of global sales, but smaller formats such as traditional, drug and convenience grew at a faster rate over the past 12 months. In fact, year-over-year sales growth in drug stores (+6%), small supermarkets (+5%) and traditional stores (+4%), doubled, or more than doubled, that of large supermarkets and hypermarkets, which grew a modest 2% each.

"Across the globe, we're seeing the rise of proximity retailing," said Dodd. "In the eyes of global shoppers, small and simple is beautiful right now. While there is some growth for large stores, the real winners are mini markets, small supermarkets and convenience stores. And digital is taking proximity/convenience retailing to a new level of customer centricity. There is nothing more convenient than a store in your pocket or in your handbag."

Channel structures and trends vary greatly between countries, however. In developed markets, 80% of sales come from large supermarkets, hypermarkets and convenience stores. While sales in large supermarkets and hypermarkets were flat (+0.3% and +1%, respectively) in the latest 12 months, sales in convenience stores, hard discounters and drug stores grew more rapidly (+3%, +2% and +2%, respectively).

[1] For selected categories. See methodology for a list of categories and countries included in the analysis.

In developing markets, the story is much different. Traditional trade stores continue to be the dominant channel, accounting for 38% of total retail channel sales,but sales in supermarkets, hypermarkets and drug stores are growing at a faster rate. Sales grew by double-digit rates in drug stores (13%) and large and small supermarkets (10% and 11%, respectively), compared with only 4% growth in traditional stores.

Convenience and drug stores demonstrate strong growth potential in both developed and developing markets, which underscores consumers' desire to use brick-and-mortar stores for quick trips and special (often urgent) purchases. As a result, these channels deserve considerable focus from manufacturers. A central team devoted to understanding consumer preferences specifically in these channels would help build best practices on how to succeed.
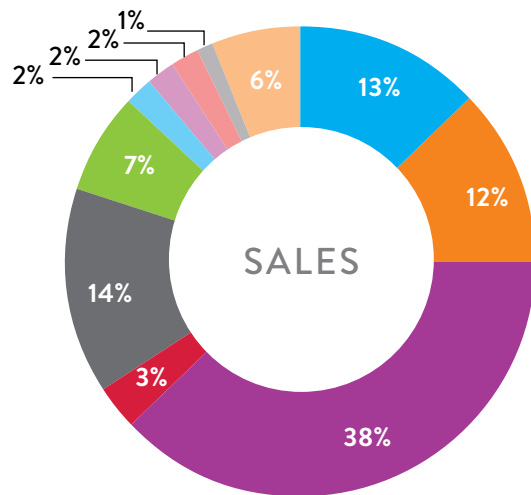
SHARE OF TRADE IS MORE FRAGMENTED IN DEVELOPING MARKETS

● LARGE SUPERMARKET   ● HYPERMARKET   ● TRADITIONAL   ● CONVENIENCE   ● SMALL SUPERMARKET

● DRUG   ● HARD DISCOUNTER   ● BAR   ● KIOSK   ● SPECIALTY   ● OTHER

DEVELOPED
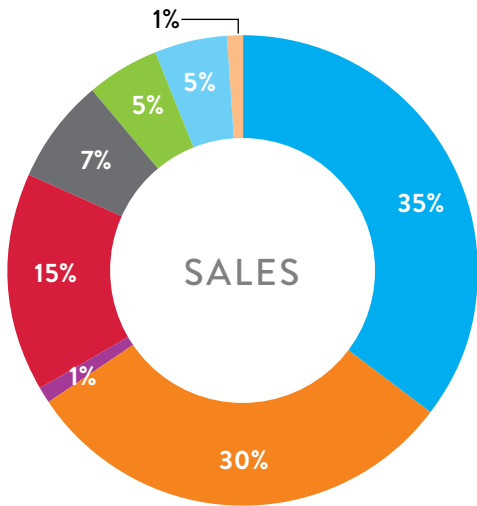
SALES

1%
5%
5%
7%
15%
1%
30%
35%

DEVELOPING

SALES

1%
2%
2%
2%
6%
7%
14%
3%
38%
13%
12%

Source: Nielsen Retail Measurement Data
Note: Value in USD, adjusted for inflation – latest 12 months
        Collection dates vary by country and category, but most were ending between September 2014 and January 2015

PERCENT SHARE OF TRADE BY CHANNEL

● LARGE SUPERMARKET   ● HYPERMARKET   ● TRADITIONAL   ● CONVENIENCE   ● SMALL SUPERMARKET

● DRUG   ● HARD DISCOUNTER   ● BAR   ● KIOSK   ● SPECIALTY   ● OTHER

NORTH AMERICA

- 1%
- 7%
- 20%
- 32%
- 41%

EUROPE

- 1%
- 1%
- 4%
- 11%
- 4%
- 17%
- 6%
- 8%
- 24%
- 25%

ASIA-PACIFIC

- 2%
- 1%
- 7%
- 5%
- 12%
- 7%
- 38%
- 18%
- 11%

MIDDLE EAST/AFRICA

- 1%
- 4%
- 4%
- 6%
- 5%
- 4%
- 42%
- 33%
- 1%

LATIN AMERICA

- 4%
- 6%
- 5%
- 9%
- 18%
- 1%
- 34%
- 11%
- 13%

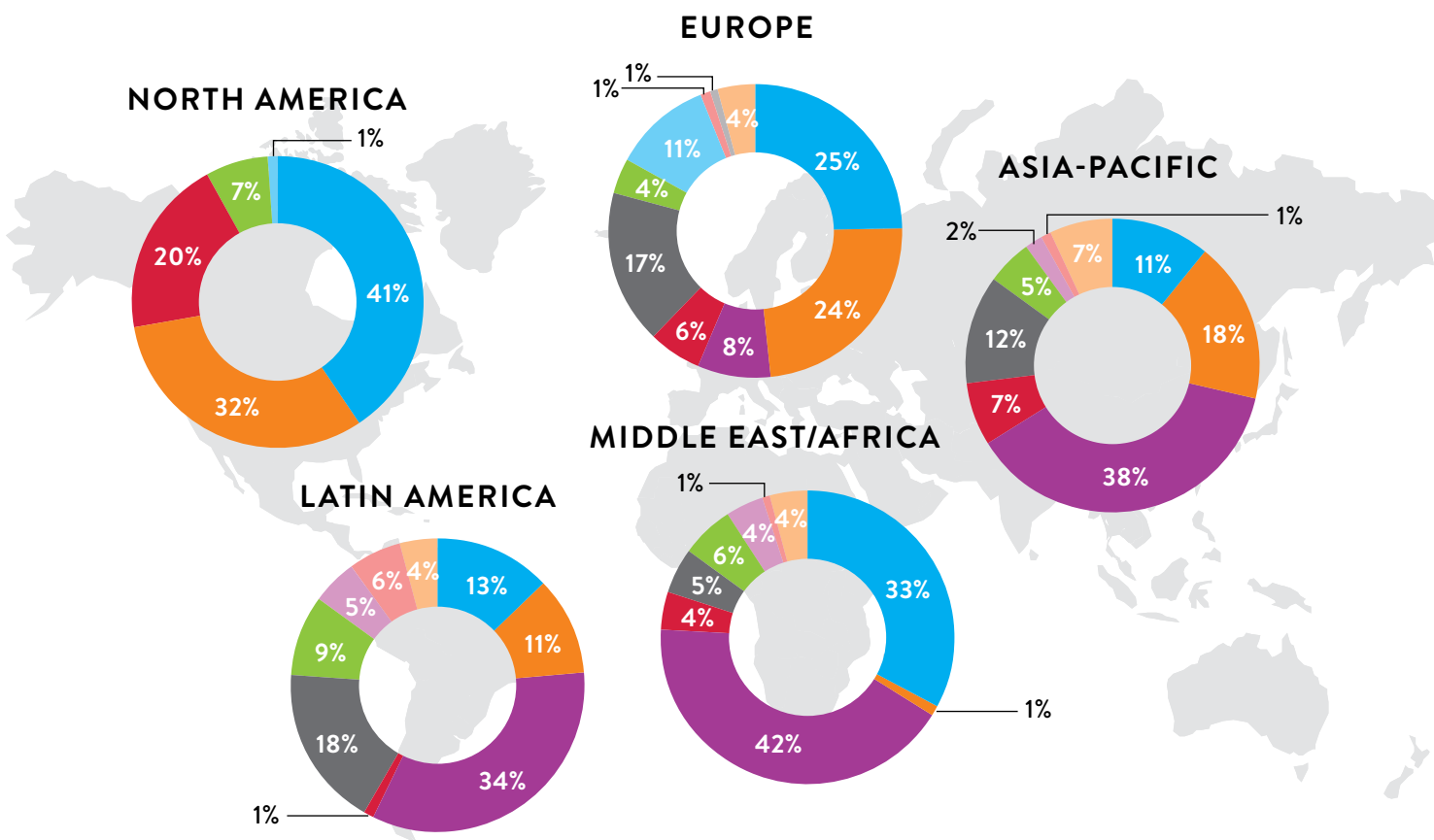Source: Nielsen Retail Measurement Data

Note: Value in USD, adjusted for inflation – latest 12 months

Collection dates vary by country and category, but most were ending between September 2014 and January 2015

WHERE CONSUMERS SHOP DEPENDS ON THE CATEGORY

Just as category matters when it comes to e-commerce success, preferences vary by retail outlet type, too.

In developed markets, sales are concentrated in large supermarkets and hypermarkets, accounting for 61% of personal care, 62% of food and beverage and 79% of household care category sales. In the food and beverage category, convenience stores are also a sizable player, accounting for 20% of sales. Similarly, in personal care, 22% of sales come from drug stores.

In developing countries, the landscape is more fragmented. Food and beverage is the most concentrated category. Forty-five percent of category sales come from traditional stores. Personal care and household product category sales, on the other hand, are divided across five channels: drug stores, hypermarkets, large supermarkets, small supermarkets and traditional stores. Hypermarkets and supermarkets are growing in these markets, but the importance of traditional channels should not be ignored due to their size and importance in the majority of categories.

For all three categories included in the study, the largest trade channel was not the one with the highest growth rate, indicating that global share of trade is becoming more fragmented. In the food and beverage category, traditional stores are growing fastest (+5%). Supermarkets and hypermarkets are still important to these categories, but consumers are increasingly relying on smaller formats such as traditional stores and kiosks, which fulfill their needs for convenience and speed. The story is similar for household product and personal care categories. Hypermarkets still claim the largest share of trade, but drug stores and convenience stores are growing more quickly.

"Large supermarkets and hypermarkets are important players in the global retail landscape and this will continue well into the future," said Dodd. "But smaller formats claim considerable share in some categories and are growing in others. Distribution efforts must rely on a mix of both. Understanding where consumers are shopping and for what categories gives the insight needed to develop more precise, market-by-market distribution strategies."
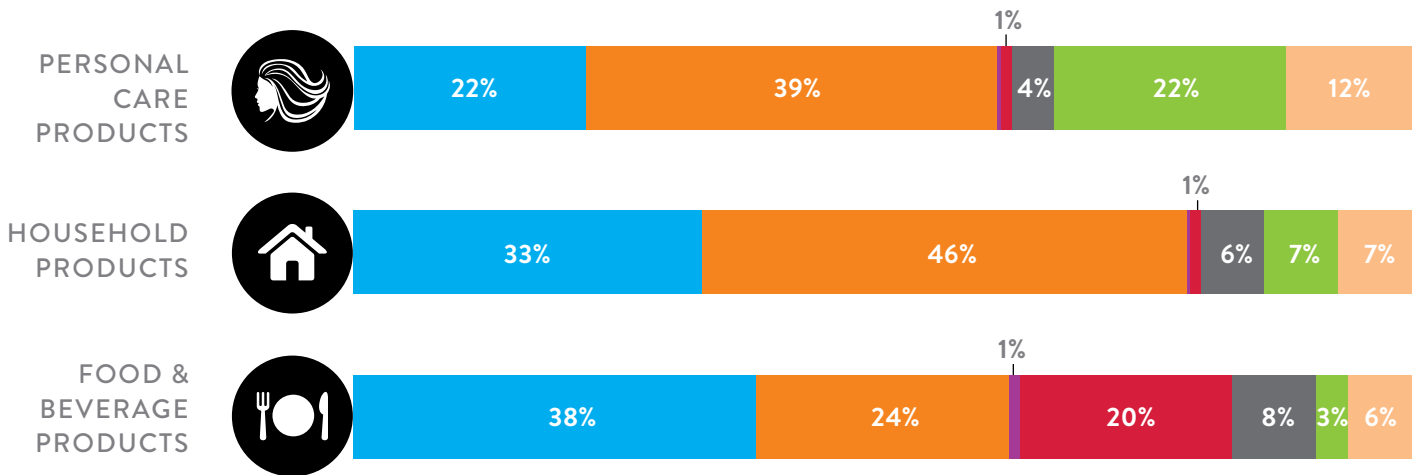
FOOD AND BEVERAGE

MILK

CHOCOLATES

CHIPS/CRISPS

COOKIES/SWEET BISCUITS

CRACKERS

BEER

BOTTLED WATER

CARBONATED SOFT DRINKS

ICE CREAM

CANNED SOUPS

INSTANT NOODLES

PASTA

PASTA SAUCES

HOUSEHOLD PRODUCTS

BABY FOOD

BABY FORMULA

BABY WIPES

BABY DIAPERS

AIR FRESHENER

FACIAL TISSUES

LAUNDRY DETERGENT

PAPER TOWELS

TOILET PAPER

PERSONAL CARE

BAR SOAP

FACIAL MOISTURIZER

FEMININE CARE

HAND & BODY CARE

MOUTHWASH

SHAMPOO

CONDITIONER

TOOTH PASTE

TOOTH BRUSHES

CHANNEL MIX FOR SELECTED CATEGORIES DIFFERS IN DEVELOPED AND DEVELOPING MARKETS

PERCENT SHARE OF TRADE BY CHANNEL

- ● LARGE SUPERMARKET
- ● HYPERMARKET
- ● TRADITIONAL
- ● CONVENIENCE
- ● SMALL SUPERMARKET
- ● DRUG
- ● OTHER

DEVELOPED
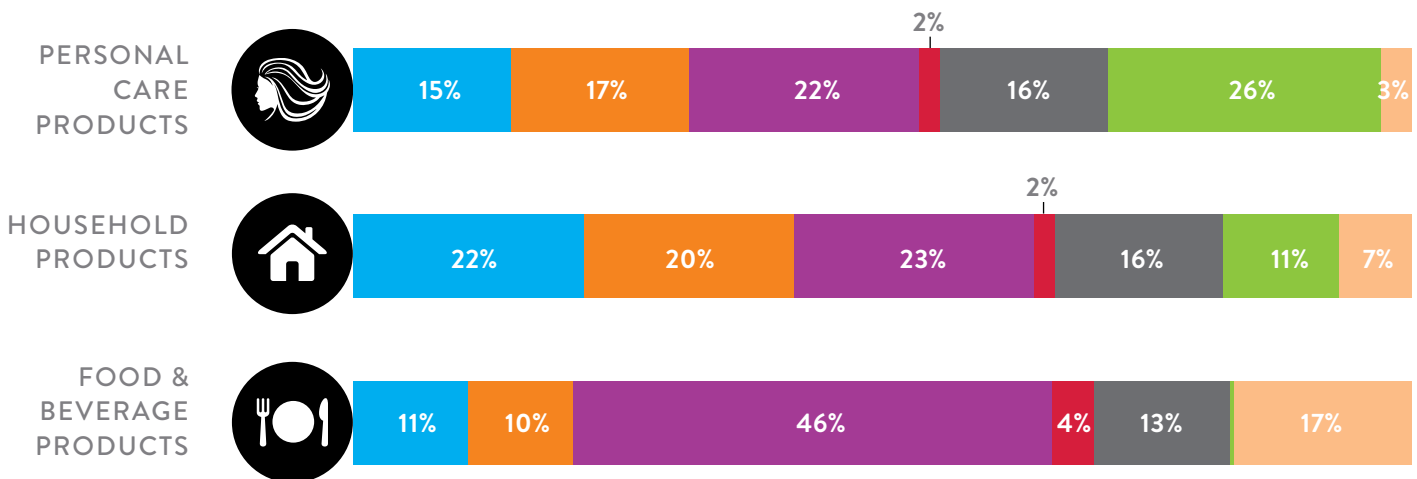
PERSONAL CARE PRODUCTS
| 22% | 39% | 1% | 4% | 22% | 12% |

HOUSEHOLD PRODUCTS
| 33% | 46% | 1% | 6% | 7% | 7% |

FOOD & BEVERAGE PRODUCTS
| 38% | 24% | 1% | 20% | 8% | 3% | 6% |

DEVELOPING

PERSONAL CARE PRODUCTS
| 15% | 17% | 22% | 2% | 16% | 26% | 3% |

HOUSEHOLD PRODUCTS
| 22% | 20% | 23% | 2% | 16% | 11% | 7% |

FOOD & BEVERAGE PRODUCTS
| 11% | 10% | 46% | 4% | 13% | 17% |

Source: Nielsen Retail Measurement Data

Note: Value in USD, adjusted for inflation – latest 12 months

Collection dates vary by country and category, but most were ending between September 2014 and January 2015

Totals may not equal 100% due to rounding

MAINTAINING LOYALTY IN A FICKLE WORLD

Consumers have more shopping choices than ever, and as channels proliferate, protecting and building store loyalty is no easy task. To keep customers coming back for more, it's crucial to understand what drives them to switch one store for another.

Money makes the world go round so it's no surprise that price is the top driver of store switching behavior—by a wide margin. Globally, 68% say price, followed by quality (55%) are store-switching motivators. Convenience (46%) and special promotions (45%) are drivers for nearly half of respondents, while cleanliness (39%), and selection/assortment (36%) are reasons for four-in-10. Store staff is a factor for just over one-quarter (27%) of respondents.

In North America, Europe and Latin America, price is a particularly important motivator in relation to the other drivers. More than seven-in-10 North American respondents (72%) say prices drive them to switch stores, 27 percentage points (pp) above the second most cited attribute, convenience (45%). There is also a double-digit gap between price and the next most important driver, quality, in both Europe (70% for price vs. 49% for quality) and Latin America (77% for price vs. 61% for quality).

In Asia-Pacific, price is the top driver of store switching, but it's below the global average (63% vs. 68% globally) and is only narrowly more important than the second most cited driver—product quality (59%). Convenience (54%) and special promotions (49%) both exceed the global average (46% and 45%, respectively) in the region.

In Europe, selection/assortment exceeds the global average in both absolute (the percentage who said it drives switching) and relative (in relation to the other drivers) importance. It is the third most important driver in Europe, cited by 43% of respondents, while it is sixth globally (cited by 36%).
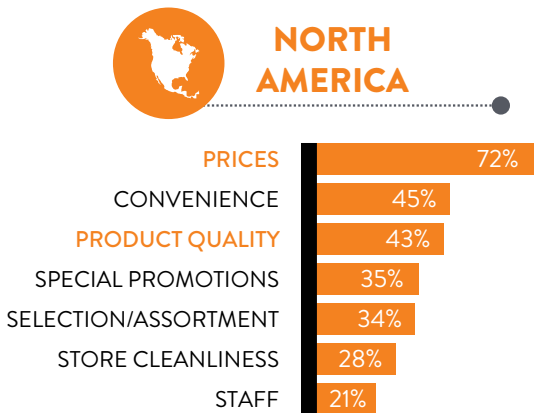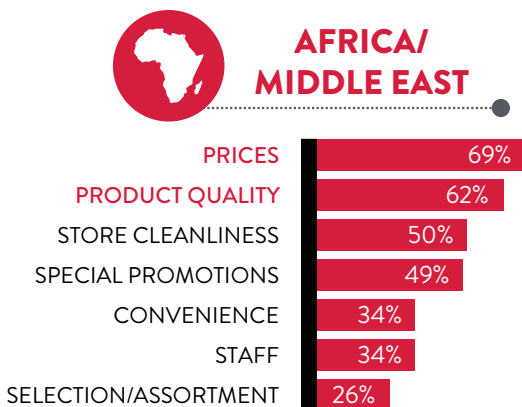
In Africa/Middle East, cleanliness is higher in both absolute and relative importance; half of respondents in the region say cleanliness drives them to switch stores, compared with 39% around the world. Convenience, on the other hand, is less important in the region than globally. Just over one-third of respondents in Africa/Middle East (34%) say convenience drives them to switch stores, while 46% global respondents cite this attribute.

Latin America exceeds the global average for nearly all attributes. The exception: convenience, which is the third most cited driver globally, but falls to the bottom of the list in this region. Just over one-quarter of Latin American respondents (28%) say convenience drives them to switch stores, compared with 46% of global respondents. Staff, on the other hand, is notably more important in this region than globally. Forty-four percent of Latin American respondents said staff would drive them to switch stores. In a culture that highly values relationships and connections with those around them, friendly faces at their place of shopping is of great importance.

PRICE AND QUALITY ARE MOST IMPORTANT GROCERY STORE SWITCHING DRIVERS

PERCENT WHO SAY ATTRIBUTE DRIVES THEM TO SWITCH STORES

GLOBAL AVERAGE

Attribute	Percent
PRICES	68%
PRODUCT QUALITY	55%
CONVENIENCE	46%
SPECIAL PROMOTIONS	45%
STORE CLEANLINESS	39%
SELECTION/ASSORTMENT	36%
STAFF	27%

ASIA-PACIFIC

Attribute	Percent
PRICES	63%
PRODUCT QUALITY	59%
CONVENIENCE	54%
SPECIAL PROMOTIONS	49%
STORE CLEANLINESS	40%
SELECTION/ASSORTMENT	30%
STAFF	24%

AFRICA/ MIDDLE EAST

Attribute	Percent
PRICES	69%
PRODUCT QUALITY	62%
STORE CLEANLINESS	50%
SPECIAL PROMOTIONS	49%
CONVENIENCE	34%
STAFF	34%
SELECTION/ASSORTMENT	26%

LATIN AMERICA

Attribute	Percent
PRICES	77%
PRODUCT QUALITY	61%
SPECIAL PROMOTIONS	55%
STORE CLEANLINESS	52%
SELECTION/ASSORTMENT	52%
STAFF	44%
CONVENIENCE	28%

NORTH AMERICA

Attribute	Percent
PRICES	72%
CONVENIENCE	45%
PRODUCT QUALITY	43%
SPECIAL PROMOTIONS	35%
SELECTION/ASSORTMENT	34%
STORE CLEANLINESS	28%
STAFF	21%

EUROPE

Attribute	Percent
PRICES	70%
PRODUCT QUALITY	49%
SELECTION/ASSORTMENT	43%
SPECIAL PROMOTIONS	40%
CONVENIENCE	39%
STORE CLEANLINESS	35%
STAFF	29%

Source:Nielsen Global Survey of E-commerce, Q1 2014

WINNING IN THE NEW RETAIL ENVIRONMENT

Digital is here to stay, but the majority of consumers will continue to shop for the bulk of their purchases in store—even if the channels they're using are changing. Shoppers will use whatever format best suits their needs for convenience, choice and value. Therefore, it is critical that retailers and manufacturers leverage physical and digital assets to optimize the in-store experience. How can retailers bridge the gap between worlds and succeed in the new retail environment?

- **Remember what drives shoppers:** Regardless of format, price, quality, convenience and selection are key drivers of store choice. Retailers need to show shoppers how they're delivering these values in every interaction, no matter where it occurs.

- **Add value through digital:** A "build it and they will come" approach will not work in the digital world. Tech-savvy consumers can easily determine whether an application or device adds value to their lives. Those that make their lives better will be used, while those that do not will be discarded. When developing digital initiatives, retailers and manufacturers need to consider whether they're creating value and clearly communicating the benefits to consumers.

- **Consider channels holistically:** Online and in-store are fundamentally different channels, with unique uses, expectations, challenges and economics. When developing a strategy, retailers need to consider the entire retail landscape and respect the differences between channels. Online and offline tactics should complement each other to drive increased engagement and sales across all outlets.

- **Know your shoppers:** Knowing consumers' wants/needs is critical when developing a multi-channel strategy. As consumers demand a more personalized shopping experience, retailers should not strive to be all things to all people. To prioritize initiatives and investments, retailers and manufacturers need a deep understanding of the decisions that shoppers make along the path to purchase, the types of information they seek

to inform those decisions, and where they choose to make a purchase. And they should use this knowledge to personalize and align touch-point content to meet shoppers' unique needs.

- **Recognize that change is industry-wide:** The changes taking place in grocery are not just a concern for retailers, but the entire CPG industry. Manufacturers need to adapt their marketing, merchandising, distribution, and operations models for the new retail landscape. Above all, success will require collaboration between retailers and manufacturers, with each party leveraging the strengths of the other to deliver services and offerings aligned with evolving consumer expectations.

- **Measure and adjust:** Retailers and manufacturers should continuously monitor performance to understand how shoppers are responding to marketing touch points and ensure they're optimizing their touch-point mix to yield the highest ROI.

COUNTRIES INCLUDED IN THIS STUDY

EUROPE

MARKET	INTERNET PENETRATION
Austria	87%
Belgium	90%
Bulgaria	59%
Croatia	71%
Czech Republic	78%
Denmark	97%
Estonia	83%
Finland	97%
France	83%
Germany	87%
Greece	60%
Hungary	75%
Ireland	79%
Israel	76%
Italy	59%
Latvia	75%
Lithuania	69%
Netherlands	96%
Norway	95%
Poland	67%
Portugal	65%
Romania	51%
Russia	61%
Serbia	65%
Slovakia	82%
Slovenia	76%
Spain	75%
Sweden	95%
Switzerland	89%
Turkey	57%
United Kingdom	90%
Ukraine	42%

ASIA-PACIFIC

MARKET	INTERNET PENETRATION
Australia	94%
China	47%
Hong Kong	81%
India	20%
Indonesia	28%
Japan	86%
Malaysia	67%
New Zealand	95%
Philippines	41%
Singapore	80%
South Korea	92%
Taiwan	80%
Thailand	30%
Vietnam	44%

LATIN AMERICA

MARKET	INTERNET PENETRATION
Argentina	75%
Brazil	54%
Chile	67%
Colombia	62%
Mexico	49%
Peru	42%
Venezuela	50%

MIDDLE EAST / AFRICA

MARKET	INTERNET PENETRATION
Egypt	53%
Pakistan	15%
Saudi Arabia	67%
South Africa	52%
United Arab Emirates	96%

NORTH AMERICA

MARKET	INTERNET PENETRATION
Canada	95%
United States	87%

Source: Internet World Stats, June 30, 2014

ABOUT NIELSEN RETAIL MEASUREMENT DATA

Sales data is from Nielsen's syndicated Retail Measurement Services database. To examine change over time, data was collected for the latest two years (or three where available) and the most recent 12 months. Collection dates vary by country and category, but most were between September 2014 and January 2015. Sales are in USD and adjusted for inflation. Given the challenges of collecting and harmonizing data for 40 countries, data was collected from all available channels only for selected products. Not all channels are covered in every country, nor are all products tracked. E-commerce sales are not included. Products were grouped into three main categories: food and beverage, personal care products and household products. The products included in each bucket are identified below.

- **Food/Beverage:** Milk, Chocolates, Chips/Crisps, Cookies/Sweet Biscuits, Crackers, Beer, Bottled Water, Carbonated Soft Drinks, Ice Cream, Canned Soups, Instant Noodles, Pasta, Pasta Sauces

- **Personal Care:** Bar Soap, Facial Moisturizer, Feminine Care, Hand & Body Care, Mouthwash, Shampoo, Conditioner, Tooth Paste, Tooth Brushes

- **Household Products:** Baby Food, Baby Formula, Baby Wipes, Baby Diapers, Air Freshener, Facial Tissues, Laundry Detergent, Paper Towels, Toilet Paper

The following countries were included in the analysis:

- **Developed:** Austria, Belgium, Canada, Czech Republic, France, Germany, Greece, Ireland, Italy, Korea, Norway, Portugal, Slovakia, Spain, Sweden, Switzerland, U.K. and U.S.

- **Developing:** Argentina, Brazil, China, Colombia, Egypt, Hungary, India, Indonesia, Israel, Malaysia, Mexico, Pakistan, Philippines, Poland, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, United Arab Emirates and Venezuela

ABOUT THE NIELSEN GLOBAL SURVEY

The Nielsen Global E-commerce and the New Retail Survey was conducted between Aug. 13, 2014, and Sept. 5, 2014. The question about drivers of grocery store switching was taken from the Nielsen Global Survey of E-commerce, conducted between Feb. 17 and March 7, 2014. Both surveys polled more than 30,000 consumers in 60 countries throughout Asia-Pacific, Europe, Latin America, the Middle East, Africa and North America. The sample has quotas based on age and sex for each country based on its Internet users and is weighted to be representative of Internet consumers. It has a margin of error of ±0.6%. This Nielsen survey is based only on the behavior of respondents with online access. Internet penetration rates vary by country. Nielsen uses a minimum reporting standard of 60% Internet penetration or an online population of 10 million for survey inclusion. The Nielsen Global Survey, which includes the Global Consumer Confidence Index, was established in 2005.

ABOUT NIELSEN

Nielsen N.V. (NYSE: NLSN) is a global performance management company that provides a comprehensive understanding of what consumers Watch and Buy. Nielsen's Watch segment provides media and advertising clients with Total Audience measurement services across all devices where content — video, audio and text — is consumed. The Buy segment offers consumer packaged goods manufacturers and retailers the industry's only global view of retail performance measurement. By integrating information from its Watch and Buy segments and other data sources, Nielsen provides its clients with both world-class measurement as well as analytics that help improve performance. Nielsen, an S&P 500 company, has operations in over 100 countries that cover more than 90 percent of the world's population.

For more information, visit www.nielsen.com.
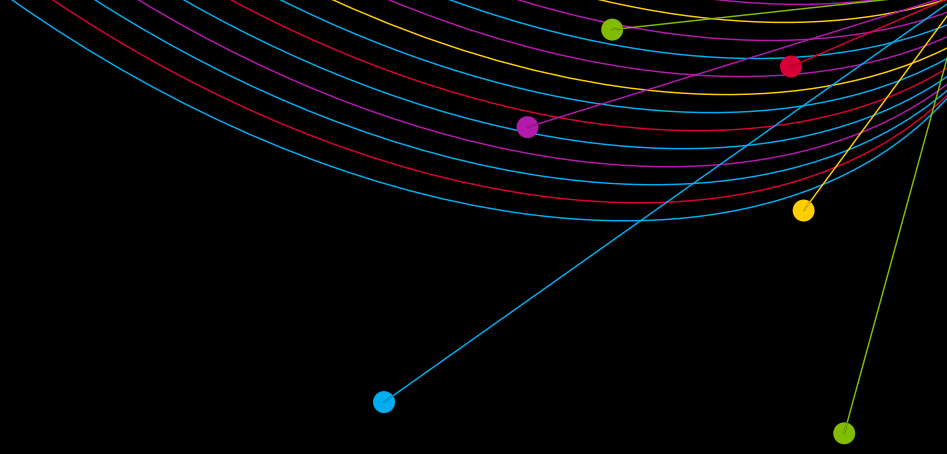
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