2018 GROCERY INDUSTRY REPORT

ABOUT THIS STUDY:

For this year's Grocery Industry Report, we wanted to survey the state of the digital and in-store union, what the cool kids refer to as Omnichannel. At what rate are consumers adopting digital ordering technologies and for what reasons? What in-store experiences can digital simply not match? And what can generational and income segmentations tell us about the current and future state of omnichannel shopping? These are some of the questions we entered into this year's survey looking to answer.

Additionally, we knew that, with the nation's current political climate being what it is, we wanted to explore the extent to which consumers hold stores accountable for corporate ethics and their support/opposition of political candidates and issues. Said simply, we are living in some complicated and polarized political times, and any light we can shed on the ways in which consumers reward or punish grocers for their allegiances should be taken to heart.

For this report, we surveyed 1,166 over between 5/17/18 and 6/2/18.

For the purposes of this study, the generational breakdowns are as follows:

Millennial 1: 18-28 years

Millennial 2: 29-37 years

Generation X: 38-53 years

Baby Boomer: 54-72 years

Silent Generation: 73 years or older

Additionally, respondents were asked to self-identify their community as rural, suburban, or urban. And, without further ado, we offer up TrendSource's 2018 Grocery Industry Report.

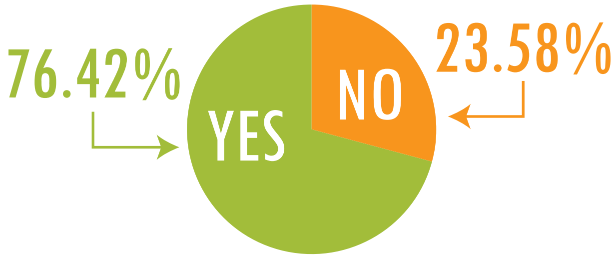
ABOUT TRENDSOURCE

TrendSource is a full-service market research and strategic consulting firm based in San Diego, California. We work with some of the top grocery stores in the world to help grow their business, offer support for entering new markets, integrate new marketing materials, work to improve customer service standards, and validate promotions and previous work. Contact us about developing a custom plan for your grocery store.

A FEW OF CONSUMERS' FAVORITE THINGS

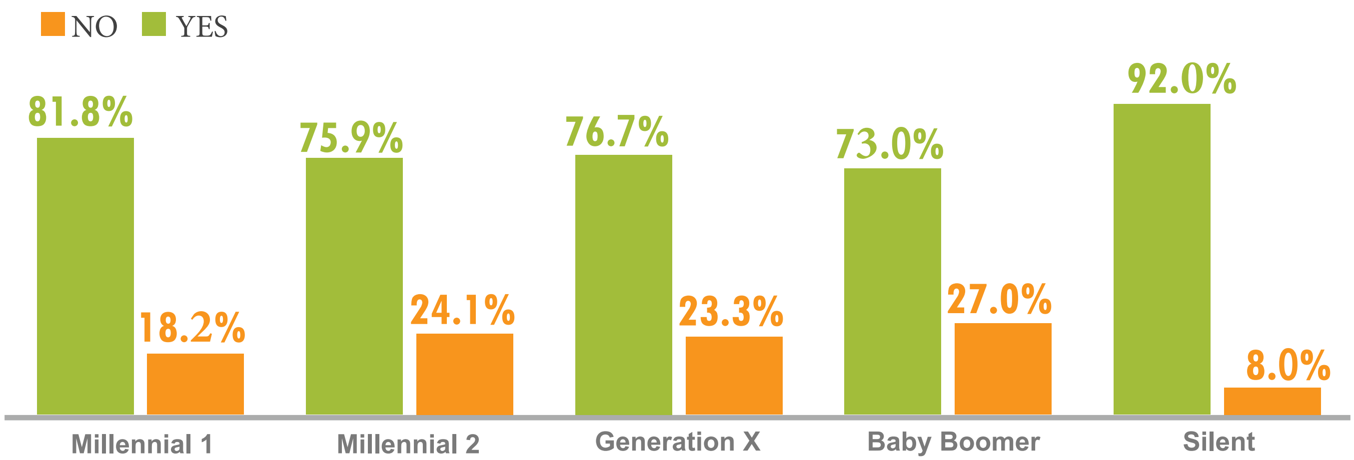
DO YOU HAVE A FAVORITE GROCERY STORE?

OVERALL



First thing's first. Though we take it for granted, we needed to establish that consumers have a favorite grocery store in order to understand how they go about ranking and choosing between them. As shown in the chart on the left, the vast majority (76.5%) of our respondents do indeed have a favorite grocery store.

BY GENERATION



Interestingly, a whopping 92% of the silent generation has a favorite store, 10% to 20% more than any other generation. While this tells us a lot about the corporate relationships our elders maintain, as well as the force of habit that seemingly compels them, it is interesting to note that loyalties of younger generations are, comparatively, more up for grabs.

Yet we also must address the Millennial 1s, whose 81% sticks out among relatively smaller numbers from Millennial 2s, Gen Xers, and Baby Boomers. How and why have the youngest consumers already established a favorite grocery store at such a high rate? We think it has to do with cost, a pain point to which the youngest generation is particularly sensitive.

> INTERESTINGLY, A WHOPPING 92% OF THE SILENT GENERATION HAS A FAVORITE STORE.

TRENDSOURCE TRUSTED INSIGHT

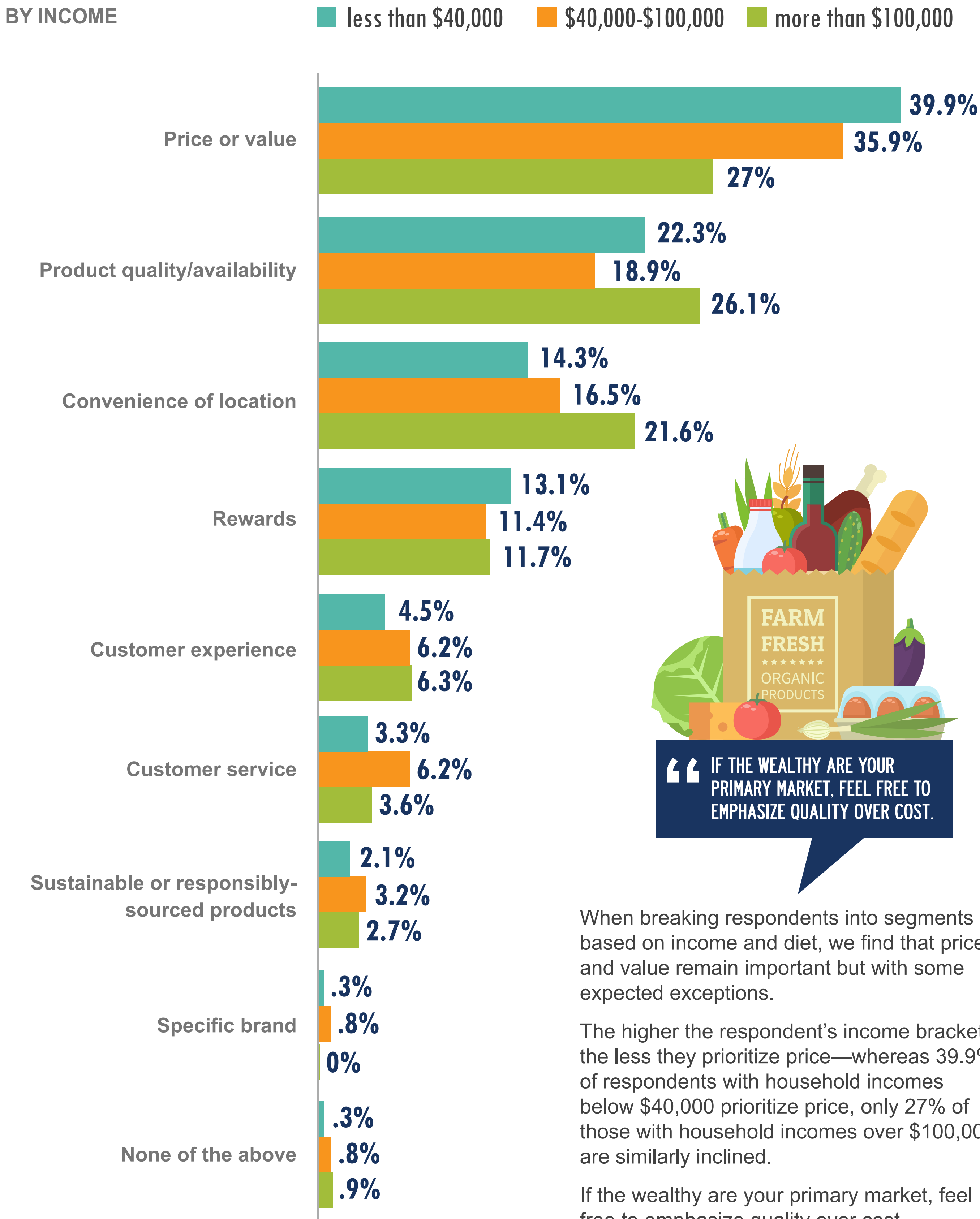
WHAT IS YOUR PRIMARY REASON FOR SHOPPING AT YOUR FAVORITE GROCERY STORE?

“ PRICE/VALUE IS THE PRIMARY REASON RESPONDENTS CHOOSE THEIR FAVORITE GROCERY STORE

Indeed, overall, price/value is the primary reason respondents choose their favorite grocery store, with 37% prioritizing it over product quality (21.4%), location convenience (15.7%), and rewards (12.1%).

Grocers, of course, know that pricing is priority 1, but with margins already razor-thin, pricing can become a zero-sum game where stores price themselves out of profit. Thus, while it is important to remember that price/value has the most appeal, grocers must look to other differentiators to stand out in a discounted sea of sameness. More on that later.

WHAT IS YOUR PRIMARY REASON FOR SHOPPING AT YOUR FAVORITE GROCERY STORE?



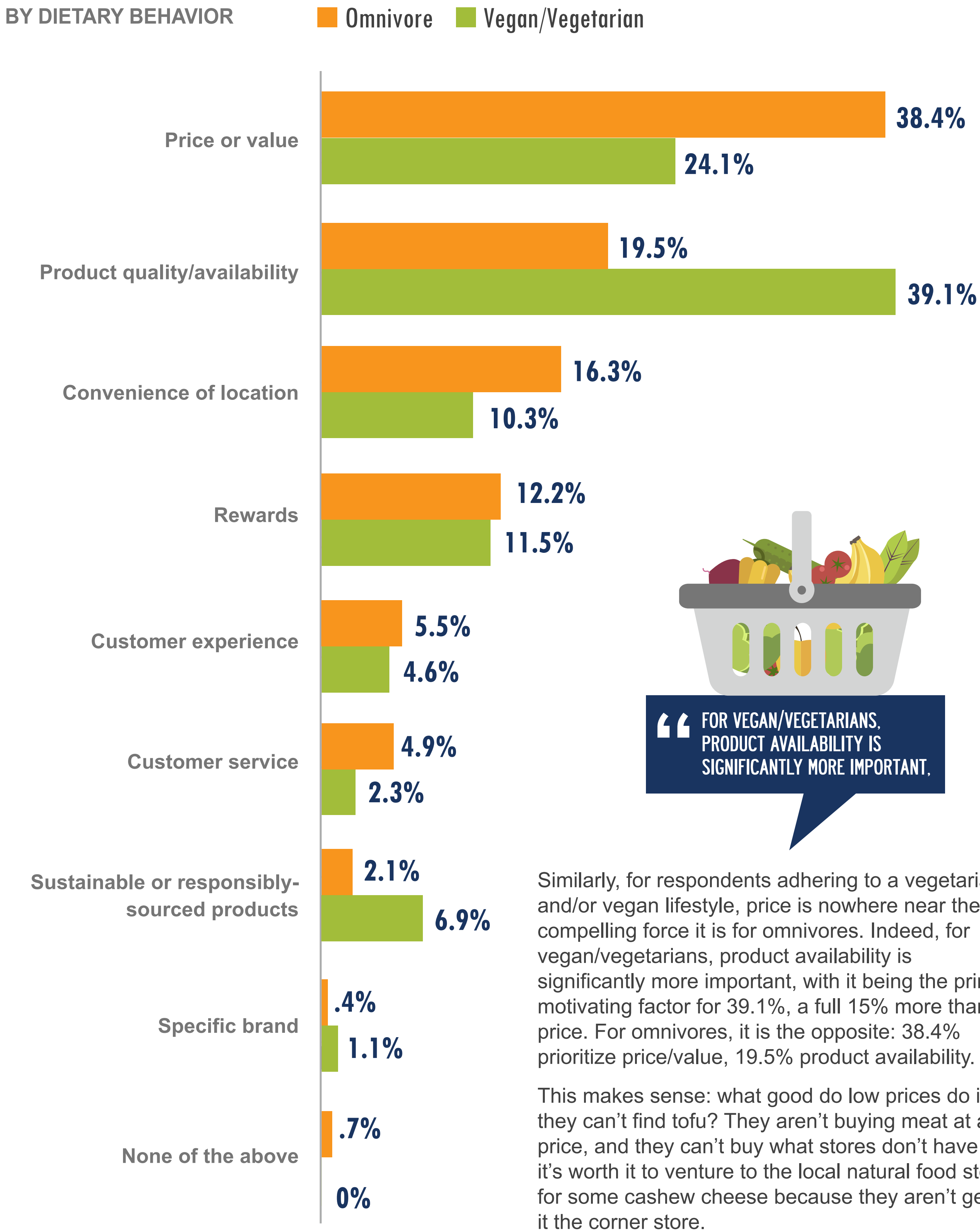
> “ IF THE WEALTHY ARE YOUR PRIMARY MARKET, FEEL FREE TO EMPHASIZE QUALITY OVER COST.

When breaking respondents into segments based on income and diet, we find that price and value remain important but with some expected exceptions.

The higher the respondent’s income bracket, the less they prioritize price—whereas 39.9% of respondents with household incomes below $40,000 prioritize price, only 27% of those with household incomes over $100,000 are similarly inclined.

If the wealthy are your primary market, feel free to emphasize quality over cost.

WHAT IS YOUR PRIMARY REASON FOR SHOPPING AT YOUR FAVORITE GROCERY STORE?



> “ FOR VEGAN/VEGETARIANS, PRODUCT AVAILABILITY IS SIGNIFICANTLY MORE IMPORTANT.

Similarly, for respondents adhering to a vegetarian and/or vegan lifestyle, price is nowhere near the compelling force it is for omnivores. Indeed, for vegan/vegetarians, product availability is significantly more important, with it being the primary motivating factor for 39.1%, a full 15% more than price. For omnivores, it is the opposite: 38.4% prioritize price/value, 19.5% product availability.

This makes sense: what good do low prices do if they can’t find tofu? They aren’t buying meat at any price, and they can’t buy what stores don’t have. So, it’s worth it to venture to the local natural food store for some cashew cheese because they aren’t getting it the corner store.

TRENDSOURCE TRUSTED INSIGHT

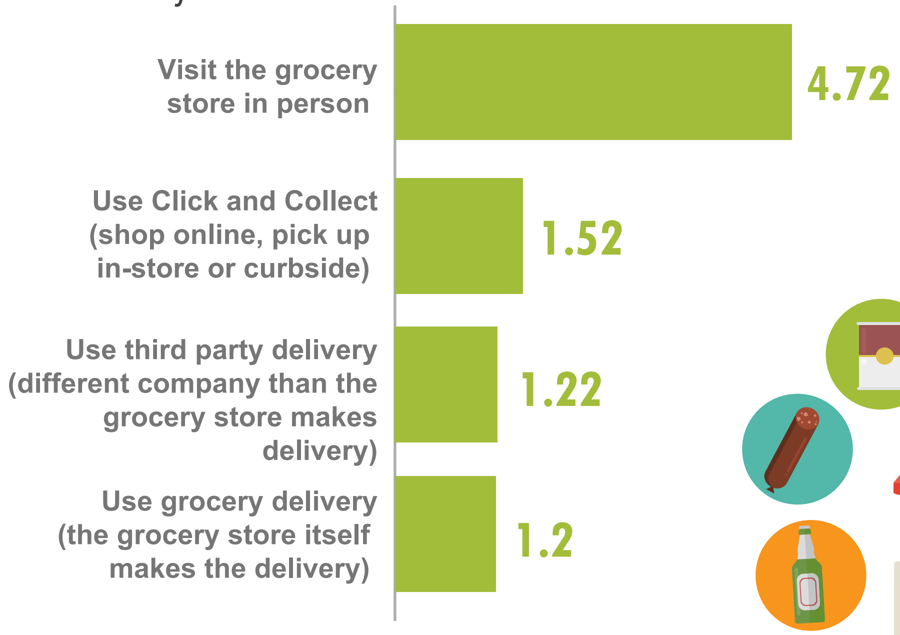
OMNICHANNEL ADOPTION

With grocers finding new ways to make shopping more convenient and efficient, consumers no longer need roam grocery sales floors, pushing shopping carts from aisle to aisle. They now have delivery, as well as click and collect, available to streamline their shopping.

Yet despite the availability of these services, the vast majority of our respondents do not use them.

HOW FREQUENTLY DID YOU ____ IN THE PAST 6 MONTHS?

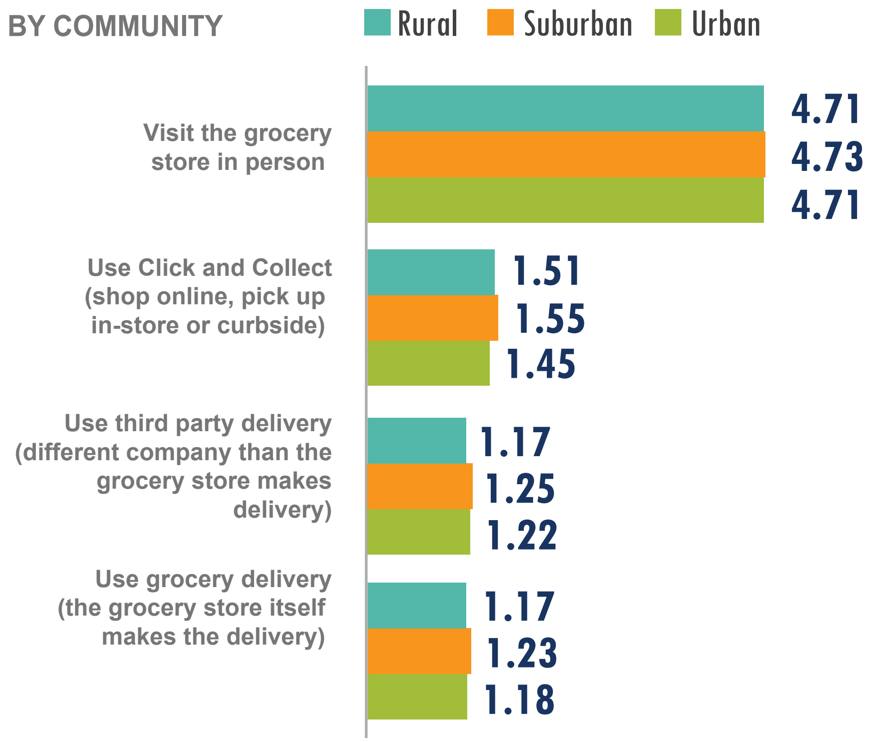
1 = Never 2 = Slightly Often 3 = Moderately Often 4 = Very Often
5 = Extremely often

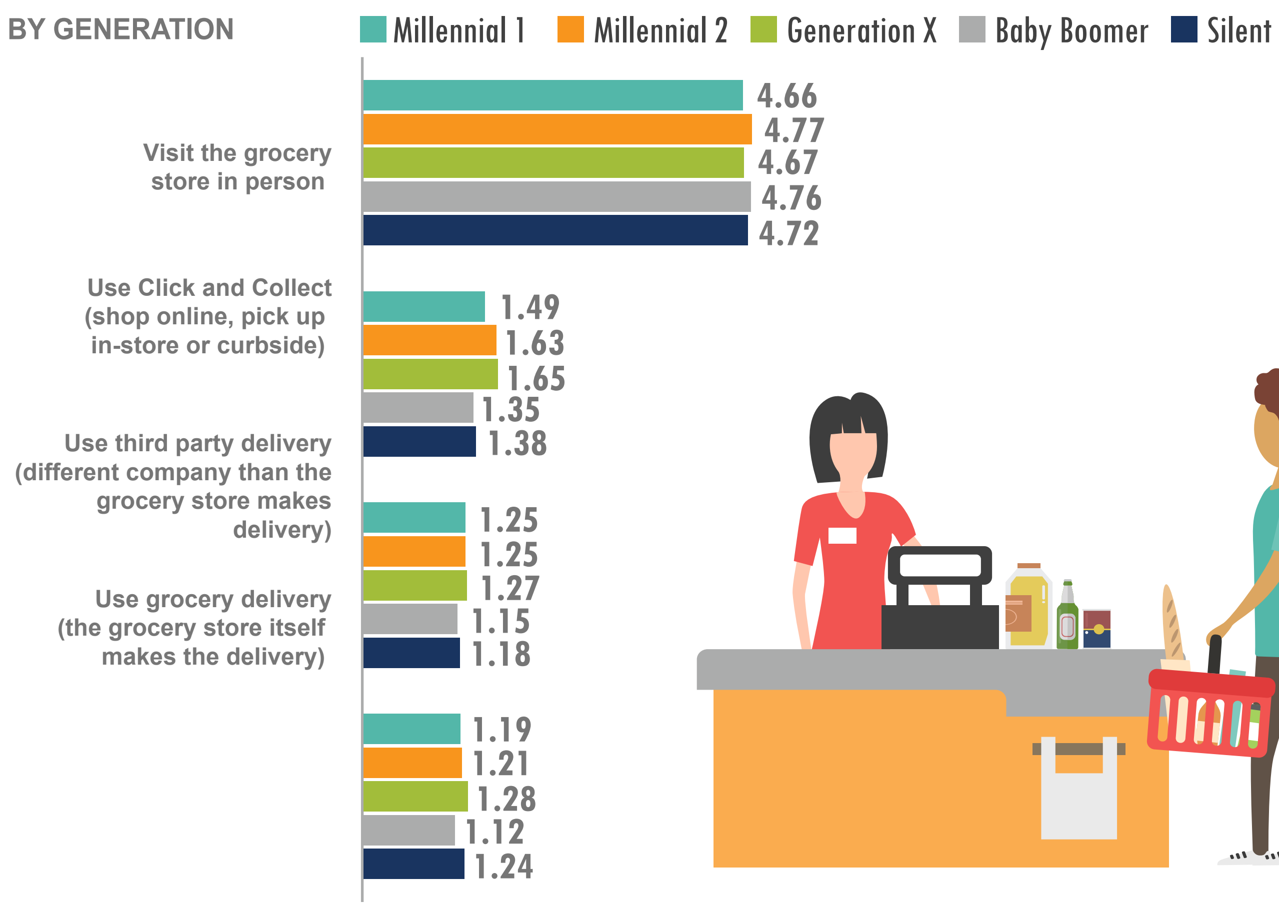


Indeed, respondents report in-store shopping at a 4.72 frequency on a 5-point scale, yet only use alternative means of shopping like click and collect (1.52) and delivery (1.22) somewhere between “never” and “infrequently”.

HOW FREQUENTLY DID YOU ____ IN THE PAST 6 MONTHS?

1 = Never 2 = Slightly Often 3 = Moderately Often 4 = Very Often
5 = Extremely often

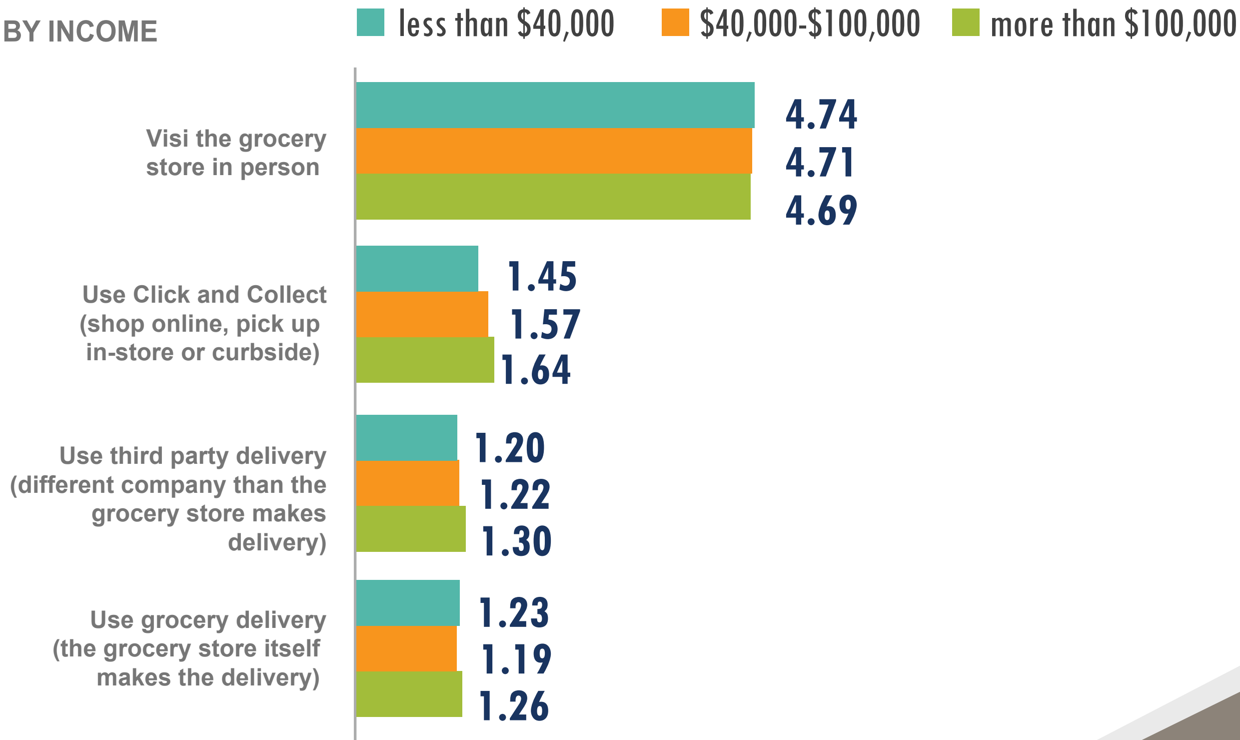




TRENDSOURCE TRUSTED INSIGHT

HOW FREQUENTLY DID YOU ____ IN THE PAST 6 MONTHS?

1 = Never 2 = Slightly Often 3 = Moderately Often 4 = Very Often
5 = Extremely often

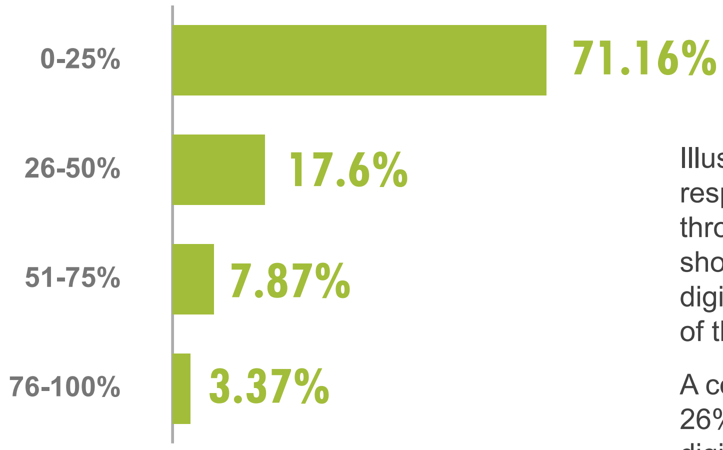


And while we may ascribe this to different access and familiarity, these adoption rates remain relatively consistent across various segmentations including community, generation, and income.

HOW MUCH OF YOUR GROCERY SHOPPING IS DONE ONLINE OR THROUGH AN APP?

> SO NEARLY THREE QUARTERS OF OUR RESPONDENTS DIGITALLY SHOP FOR THEIR GROCERIES LESS THAN ONE-QUARTER OF THE TIME.

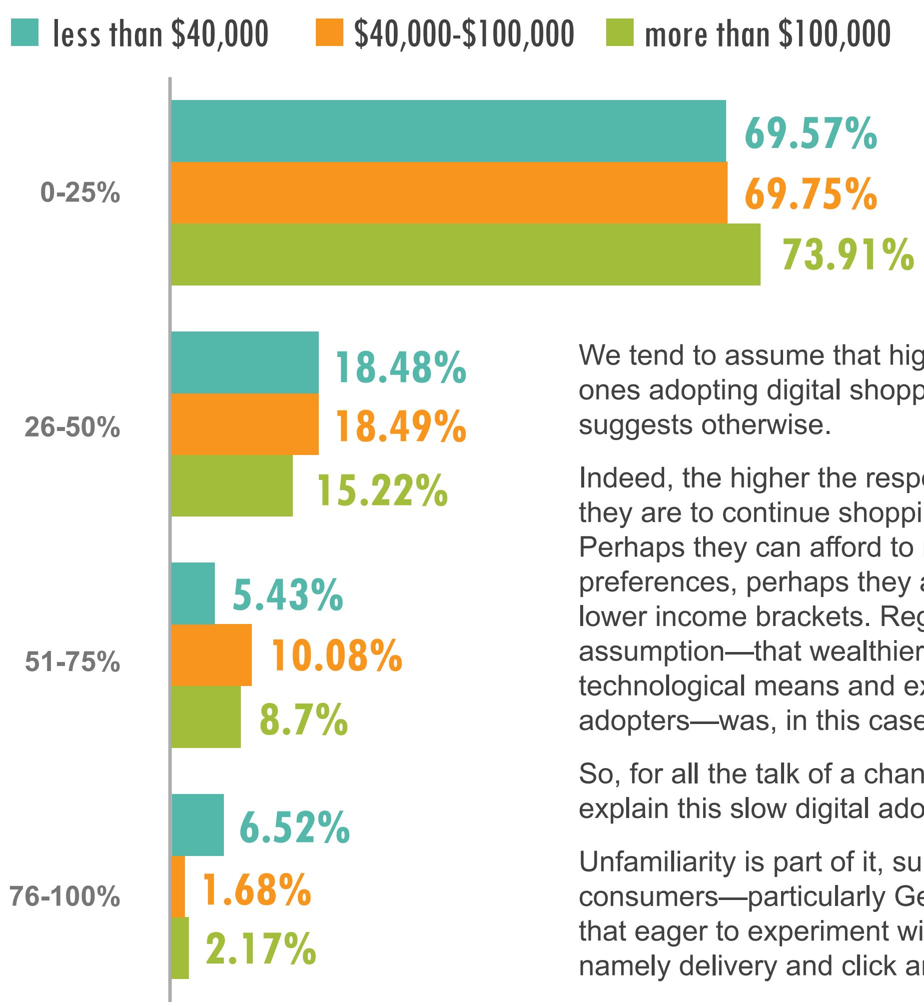
OVERALL



Illustrated another way, nearly three-quarters of our respondents (71.16%) report shopping online or through an app for 0% to 25% of their grocery shopping. So nearly three quarters of our respondents digitally shop for their groceries less than one-quarter of the time.

A comparatively minute 17.60% report digital shopping 26%-50% of the time; 7.87% of respondents shop digitally for 51%-75% of their trips, and 3.37% for 76%-100% of their grocery shopping.

BY INCOME



We tend to assume that higher-income consumers are the ones adopting digital shopping technologies, but our data suggests otherwise.

Indeed, the higher the respondent's income bracket, the likelier they are to continue shopping in-store as opposed to online. Perhaps they can afford to remain steadfast in their shopping preferences, perhaps they are less time pressed than those in lower income brackets. Regardless, it is worth noting that our assumption—that wealthier consumers possess the technological means and experience to be early adopters—was, in this case, disproven by the data.

So, for all the talk of a changing grocery landscape, how to explain this slow digital adoption?

Unfamiliarity is part of it, sure. As we will see, consumers—particularly Generation X and older—are not all that eager to experiment with new modes of grocery shopping, namely delivery and click and collect.

Yet, that said, there are still in-store experiences that online simply cannot match. At least not yet. And in-person browsing seems to be the most important.

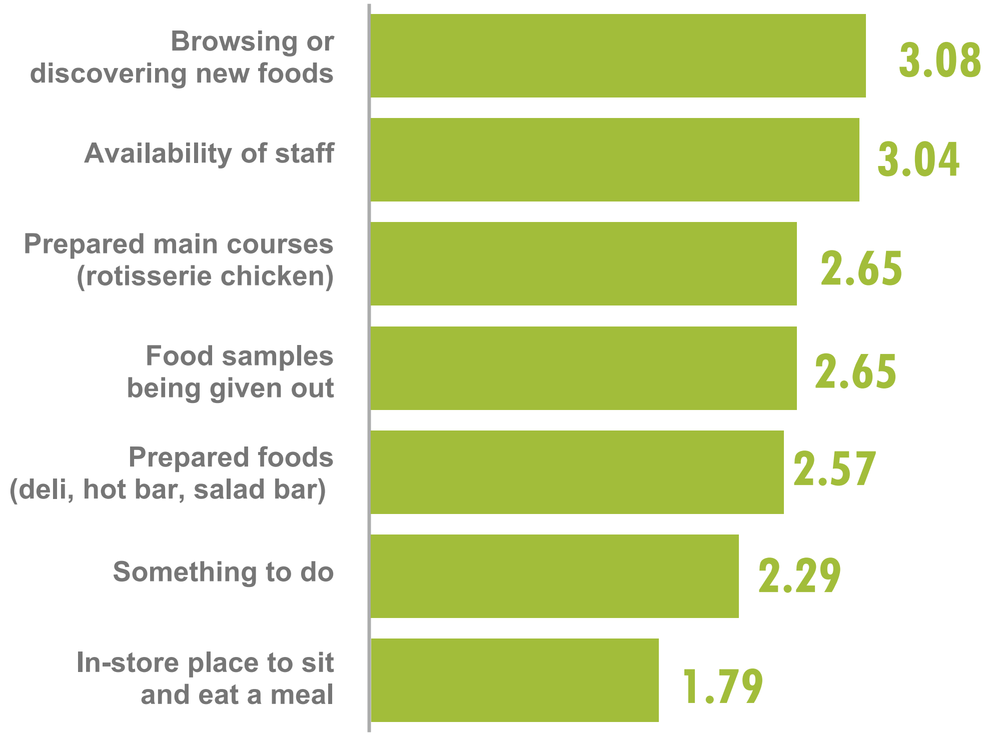
TRENDSOURCE TRUSTED INSIGHT

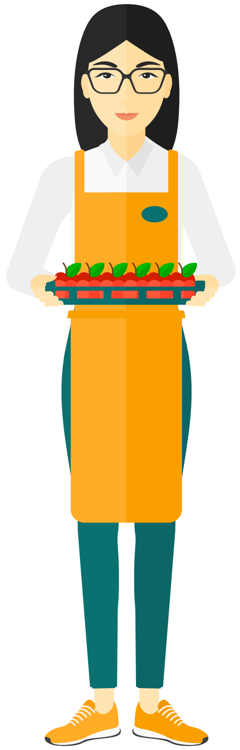
BROWSING ON A WEB BROWSER IS NOT THE SAME AS IRL

HOW MUCH DOES____ MOTIVATE YOU TO VISIT STORE?

1 - Not at all motivating 2 - Slightly motivating 3 - Moderately motivating 4 - Very Motivating 5 - Extremely motivating

OVERALL





The two most popular motivations for respondents to go in-store are the ability to browse and discover new foods (3.08) and the availability of staff (3.04).

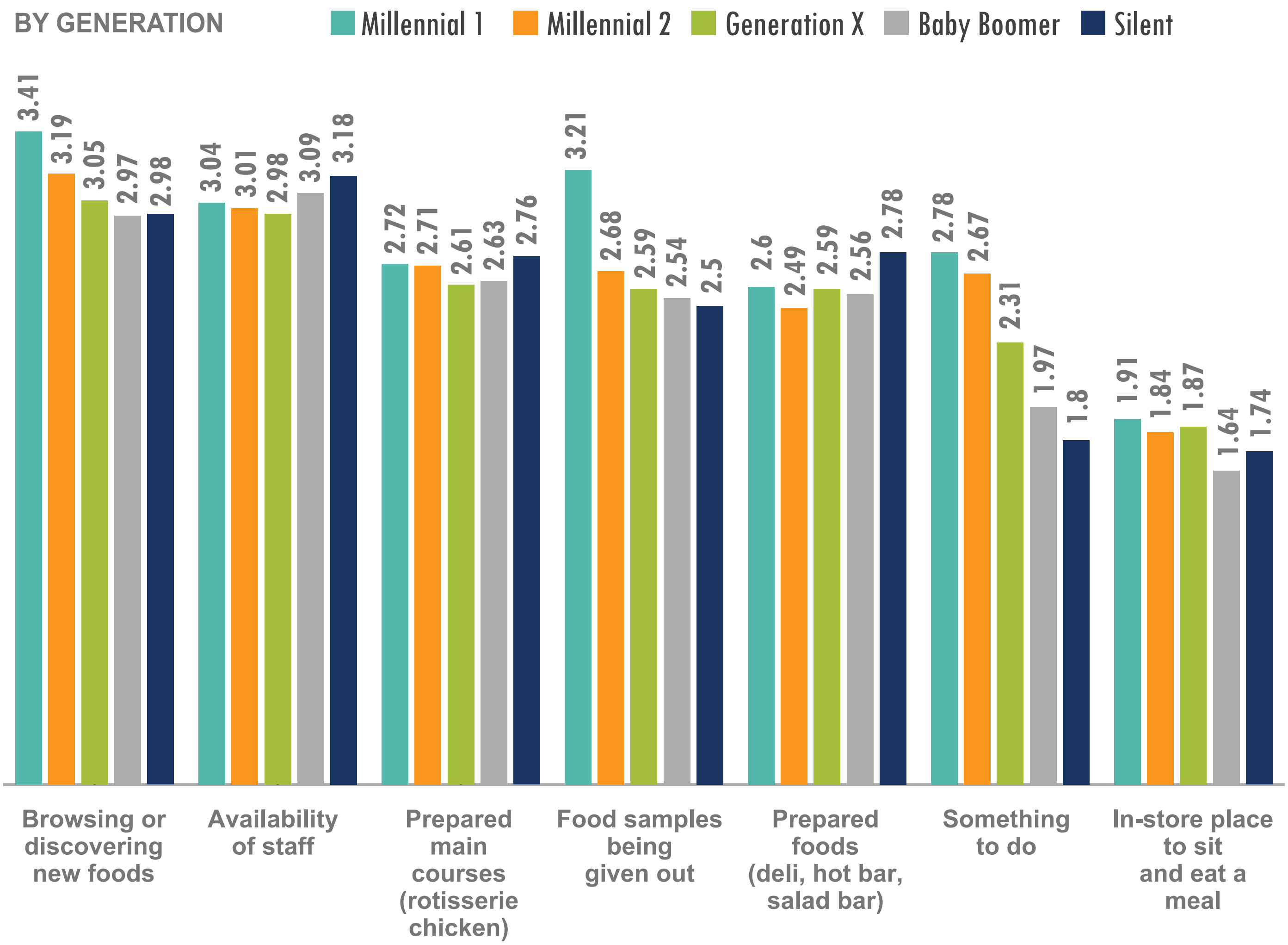
It seems that grocers have yet to develop and exploit online shopping's browsing potential in a way that rivals the in-store experience of moving from shelf to shelf and aisle to aisle in a brick-and-mortar grocery store. Sure, there are "similar items" suggestions at checkout, and shoppers can search things like "butter" and find all the available options. But there is something to be said for exploring the fresh produce section and discovering a vegetable you never even knew existed or finding out that the cantaloupes look particularly fresh today.

For online shopping, consumers go in with a list, search for their items, add them to cart, and checkout. Obviously, grocers want consumers to browse and increase basket size, so it continues to be imperative for grocers to build out online shopping experiences that can begin to rival in-store meandering from aisle to aisle.

Similarly, the desktop and in-app experience have yet to suitably replace the assistance IRL customer service can provide. Though some operations are great at digital customer service (see: Amazon), this customer service is available when problems arise, not for general questions. Grocers are no doubt building virtual assistants and slack channels to offer guidance to consumers not reaching out to complain about overcharges or incorrect orders, but just for general questions regarding particular brands and items.

HOW MUCH DOES ____ MOTIVATE YOU TO VISIT STORE?

1 - Not at all motivating 2 - Slightly motivating 3 - Moderately motivating 4 - Very Motivating 5 - Extremely motivating



Millennial 1s also can be drawn in store by free food, namely salesfloor samples.

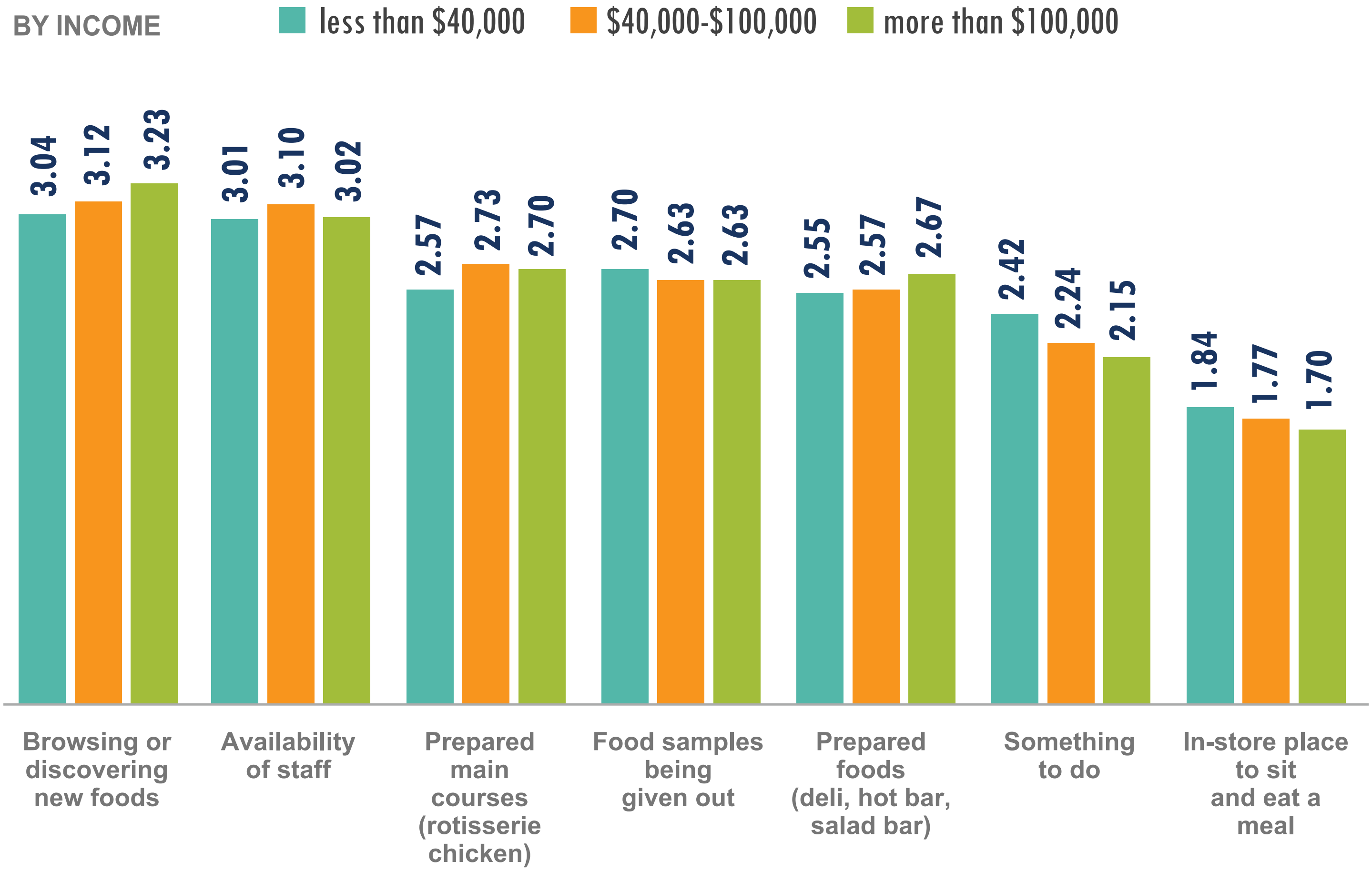
Indeed, Millennial 1s found food samples disproportionately motivating relative to other generational groups (3.21) and, with the only greater motivation being browsing and discovering new foods (3.41), it is clear that millennials are drawn in-store to find new, interesting items and, when they find them, they'd like to try them.

This should signal an opportunity to capture the attention and interest of the next generation of grocery shoppers by making stores into smorgasbords of discovery and testing. With so much of their identity built around unique experiences, they'd love to find a great item they can introduce to their friends.

Of course, it's also possible they want free food because they are more cost-sensitive than all other generational groups. Regardless, feed them now, and they will keep coming back.

HOW MUCH DO THESE MOTIVATE YOU TO VISIT STORE?

1 - Not at all motivating   2 - Slightly motivating   3 - Moderately motivating   4 - Very Motivating   5 - Extremely motivating



> “ EVERYBODY WANTS TO BROWSE, THEY'RE JUST DOING IT FOR DIFFERENT REASONS.

Also, consider that wealthier consumers are notably more motivated by the chance to browse and discover new items than other income brackets—the higher a household's income, the likelier they are motivated by this in-store experience.

It is perhaps crude to point out, but the higher one's income, the more they can afford to add some impulse items to the shopping cart, whereas shoppers from households with lower incomes often adhere to a strict list that keeps costs in check.

That's why it's no accident that stores catering to wealthier consumers have turned their aisles into a choose your own adventure of culinary discovery, while bargain shops like Grocery Outlet offer similar exploration but geared entirely towards savings. Everybody wants to browse, they're just doing it for different reasons.

TRENDSOURCE TRUSTED INSIGHT

GROCERY SHOULD NOT BE A DIRTY WORD

With customers still preferring the in-store experience, it is important for brick-and-mortar operations to stand out. How can stores distinguish themselves when price and browsability are not enough?

FACTORS WHEN CHOOSING BETWEEN GROCERY STORES

1 - Not important 2 - Slightly important 3 - Moderately Important 4 - Very Important 5 - Extremely Important

When choosing between similarly priced grocery stores, a store's cleanliness is surprisingly the most important factor (4.41)—more so than food and product offerings (4.37) and safety (4.19). This seems like one of those things that should be obvious and easy, but with the battle to keep overhead down, stores do not always have the staff available to keep everything spick and span. They cannot compromise cleanliness, however.

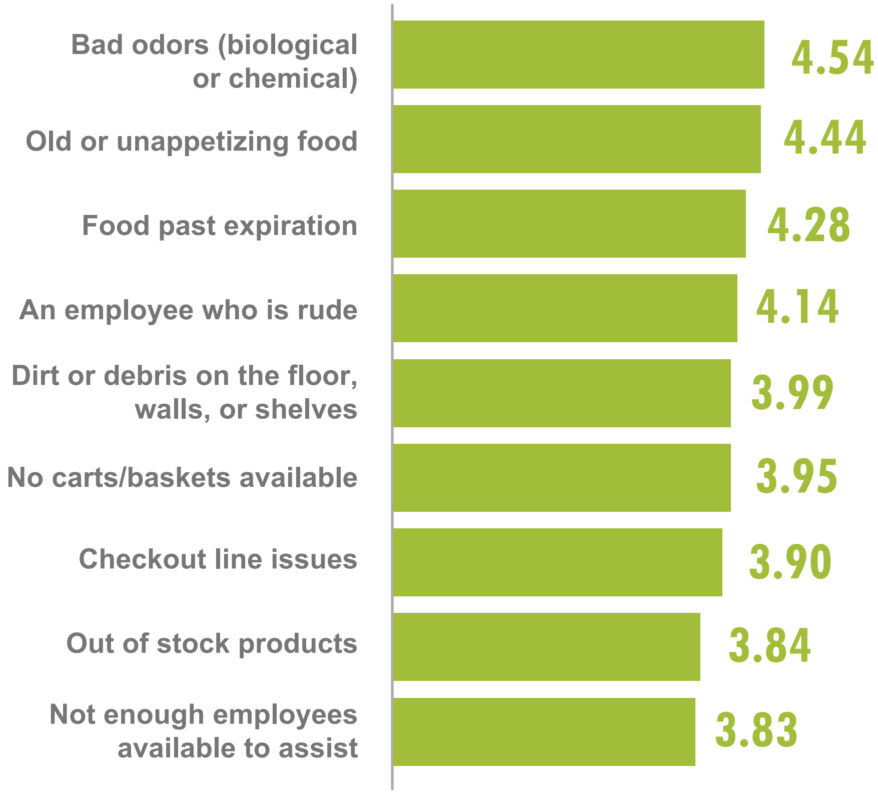
Also, note that, relative to all other in-store concerns, corporate ethics do not rate very high on the priority list. Keep this in mind when we explore the relative importance of ethical issues.

A clean store is a welcoming one, a dirty one is a deal breaker.

> “A STORE'S CLEANLINESS IS SURPRISINGLY THE MOST IMPORTANT FACTOR

NEGATIVE EXPERIENCES INFLUENCE ON RETURNING TO STORE

1 - Not important 2 - Slightly important 3 - Moderately Important 4 - Very Important 5 - Extremely Important



Indeed, as shown above, a grocer's cleanliness can attract consumers, and its lack-thereof can turn them off.

When given a list of 17 potential negative in-store experiences, the most offensive issues relate to bad odors (4.54), old or unappetizing food (4.44), food past expiration date (4.28), and employee rudeness (4.14).

Grocers should be mindful of the positive ways to draw customers into their stores, but they also need to keep an eye on what stands to drive them out. There's no other way to say it, a gross store—in terms of cleanliness, sanitation, and employee behavior—goes a long way in turning customers off.

Given the both positive and negative influence this has on consumers' choice, stores need to keep it clean.

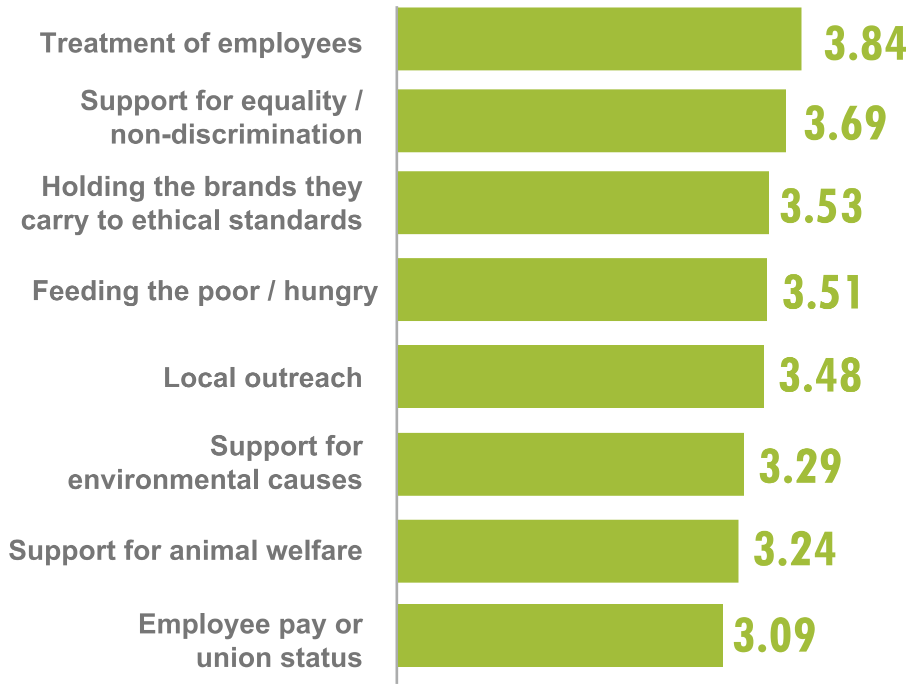
ON CORPORATE ETHICS AND POLITICS

The thing about ethics is, everybody feels like they have them. Nobody tries to be a bad person, everybody has a set of standards against which they judge themselves. Those standards just vary from person-to-person. Recalling that ethical issues did not rank very high on consumers' priority list when choosing between grocers, it is nonetheless interesting to explore what ethical issues are most important to them and what lessons grocery stores should learn from them.

ETHICAL ISSUES WHEN CHOOSING A GROCERY STORE

1 - Not important 2 - Slightly important 3 - Moderately Important 4 - Very Important 5 - Extremely Important

OVERALL



In surveying our database, we found a surprising ethical polarity when it comes to employee treatment. Respondents ranked treatment of employees as the most important issue (3.84) when evaluating a store's ethics, yet employee pay and union status ranks the lowest (3.09) out of the eight options. How to explain this apparent contradiction?

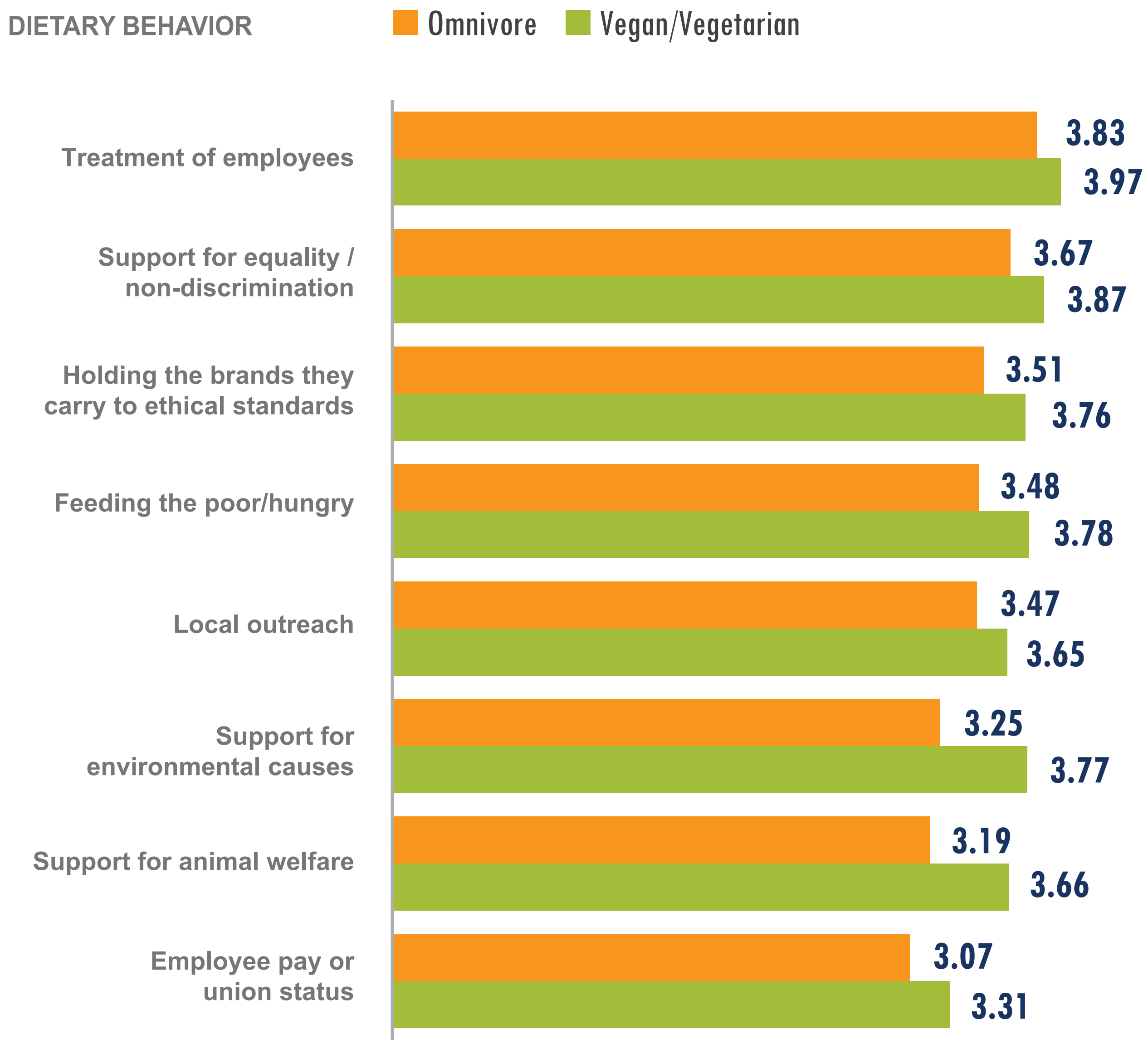
It is possible that the word "union" turns off some respondents, who associate them with graft and corruption, but who also want employees treated ethically. Perhaps they just do not believe unions are the best path to that treatment.

> "ETHICAL ISSUES DID NOT RANK VERY HIGH ON CONSUMERS' PRIORITY LIST WHEN CHOOSING BETWEEN GROCERS

TRENDSOURCE TRUSTED INSIGHT

ETHICAL ISSUES WHEN CHOOSING A GROCERY STORE

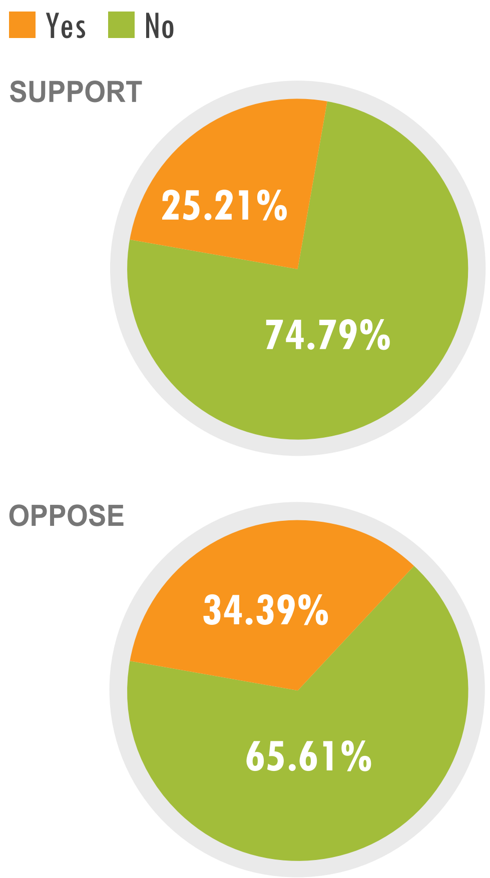
1 - Not important 2 - Slightly important 3 - Moderately Important 4 - Very Important 5 - Extremely Important



Before moving into politics, one other point about ethics. Vegan/Vegetarians rate every single ethical issue higher than their omnivore counterparts, meaning they are more invested in every single ethical issue. This makes sense considering many of these consumers choose their diet based on their own ethical imperatives. People making dietary choices based on their perceived ethical obligation to the earth and its animals are more sympathetic to other ethical issues, even those not related to their diet. Indeed, compared to other survey responses, "ethical eaters" care more about ethical issues.

> "VEGAN/VEGETARIANS RATE EVERY SINGLE ETHICAL ISSUE HIGHER THAN THEIR OMNIVORE COUNTERPARTS

WOULD SUPPORT FOR A CANDIDATE YOU ________ INFLUENCE YOUR LIKELIHOOD TO VISIT A GROCERY STORE?



As we turn our discussion to politics, there is one point that should come through loud and clear to grocers: stay out of it!

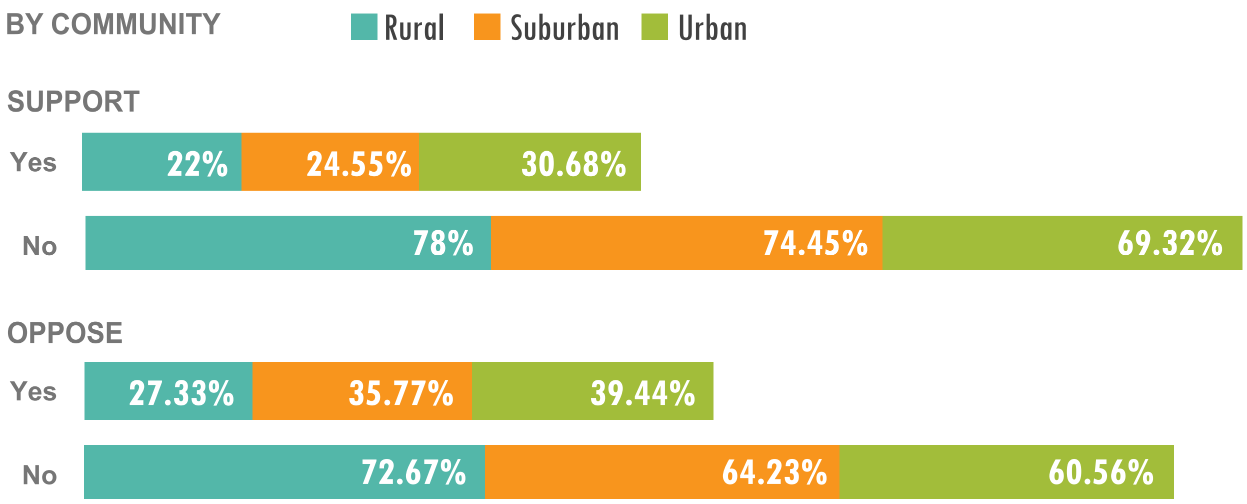
Indeed, politics are a potential turnoff for consumers choosing between stores, suggesting that support of political candidates and issues can be a no-win situation for grocers, and thus one they should entirely avoid.

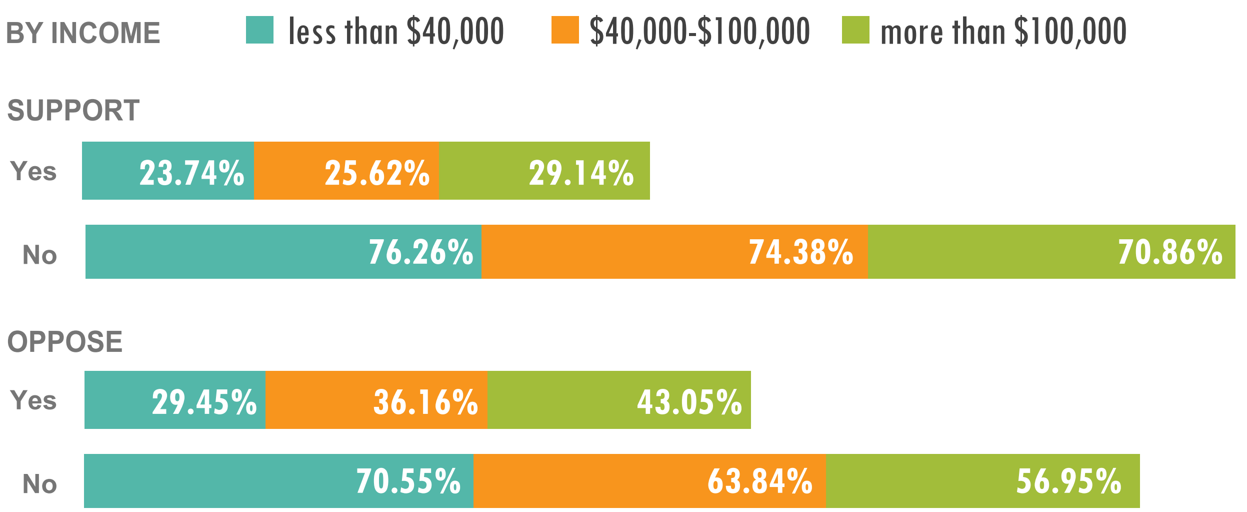
Grocers are far likelier to take a hit from supporting a candidate that consumers oppose (34.39%) than they are to get a bump from supporting a candidate consumers support (25.21%). Said differently, consumers' opinion of stores is more significantly impacted when the store's politics clash with their own than when they align. Ethics and morals aside, in terms of business calculus, political risks outweigh their potential rewards.

Since politics are currently so contentious with a relatively even national split, these numbers suggest that any consumers drawn to a store for its politics will be outweighed by those turned off and away by those very allegiances.

TRENDSOURCE TRUSTED INSIGHT

WOULD SUPPORT FOR A CANDIDATE YOU ________ INFLUENCE YOUR LIKELIHOOD TO VISIT A GROCERY STORE?





> "A STORE'S POLITICS ARE LIKELIER TO INFLUENCE URBAN CONSUMERS THAN SUBURBAN AND RURAL ONES

Different people have different ideas about the ways community and politics overlap. Without treading into any rural vs. urban debate, our data does offer some insight: a store's politics are likelier to influence urban consumers than suburban and rural ones.

Household income also influences the extent to which politics shape consumers' store preferences: the wealthier the household, the likelier politics will shape their patronage. Maybe it is because they can afford to care about politics since they are not simply looking for the best prices in town.

Considering Publix's recent bouts with politics and public opinion, grocers are likely taking notice and steering clear of political support in these fraught times. They should continue to do so.

RATE HOW MUCH YOU LIKE THESE CHECKOUT OPTIONS?

1 - Strongly Dislike 2 - Moderately Dislike 3 - Slightly Dislike 4 - Neither Like Nor Dislike 5 - Somewhat Like 6 - Moderately Like 7 - Strongly Like

OVERALL

Now, from the contentious to the consensus. When in-store, how do customers want to pay for their groceries?

Overall, respondents still trust what they know and thus prefer traditional checkout options where employees scan and bag their items. The second most popular checkout method among our respondents is also the second most familiar: self-checkout. Around since the mid 1990s, customers have gotten used to scanning and bagging their own groceries at the end of their visit, even if they are barraged with warnings about unauthorized items in the bagging area.

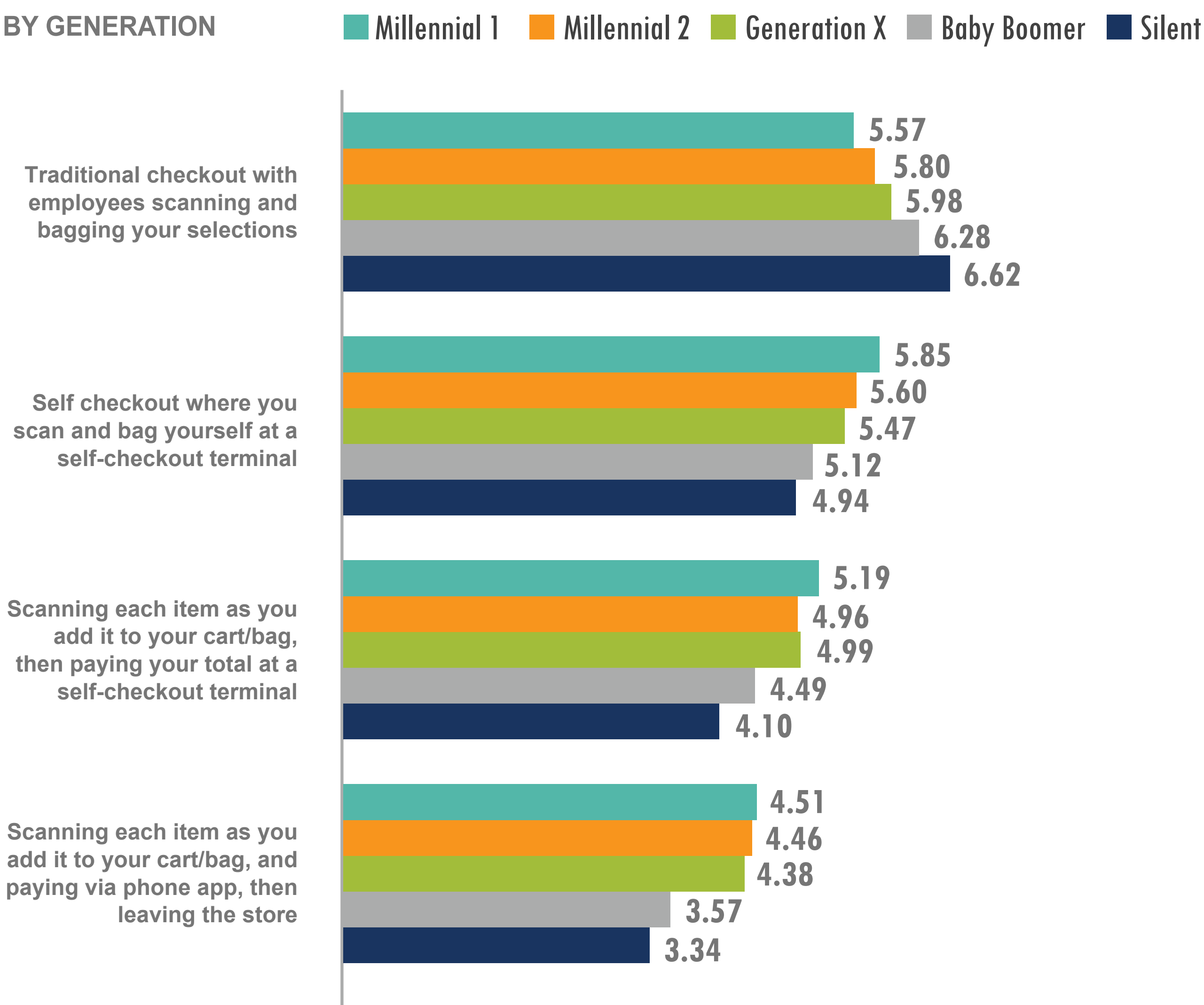
The less familiar options are also the less popular, including scan-as-you-go options and even automatic payment a-la Amazon Go.

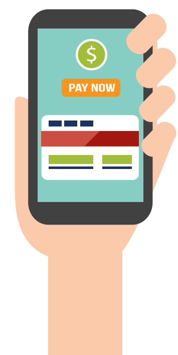
However, grocers shouldn't take these numbers as a sign they should slow their in-store checkout advancements.

> “ RESPONDENTS STILL TRUST WHAT THEY KNOW AND THUS PREFER TRADITIONAL CHECKOUT OPTIONS.

TRENDSOURCE TRUSTED INSIGHT

RATE HOW MUCH YOU LIKE THESE CHECKOUT OPTIONS?





That's because of generational segmentations. Generally, the younger the consumer's cohort, the likelier they are to respond favorably to newer payment options. Obviously for grocers, in-store payment technologies stand to lower labor and other overhead costs, and while it seems like our overall sample is less than receptive to some of the newest in-store tech, the ascendant generations may be young, but they are ready.

> "THE YOUNGER THE CONSUMER'S COHORT, THE LIKELIER THEY ARE TO RESPOND FAVORABLY TO NEWER PAYMENT OPTIONS

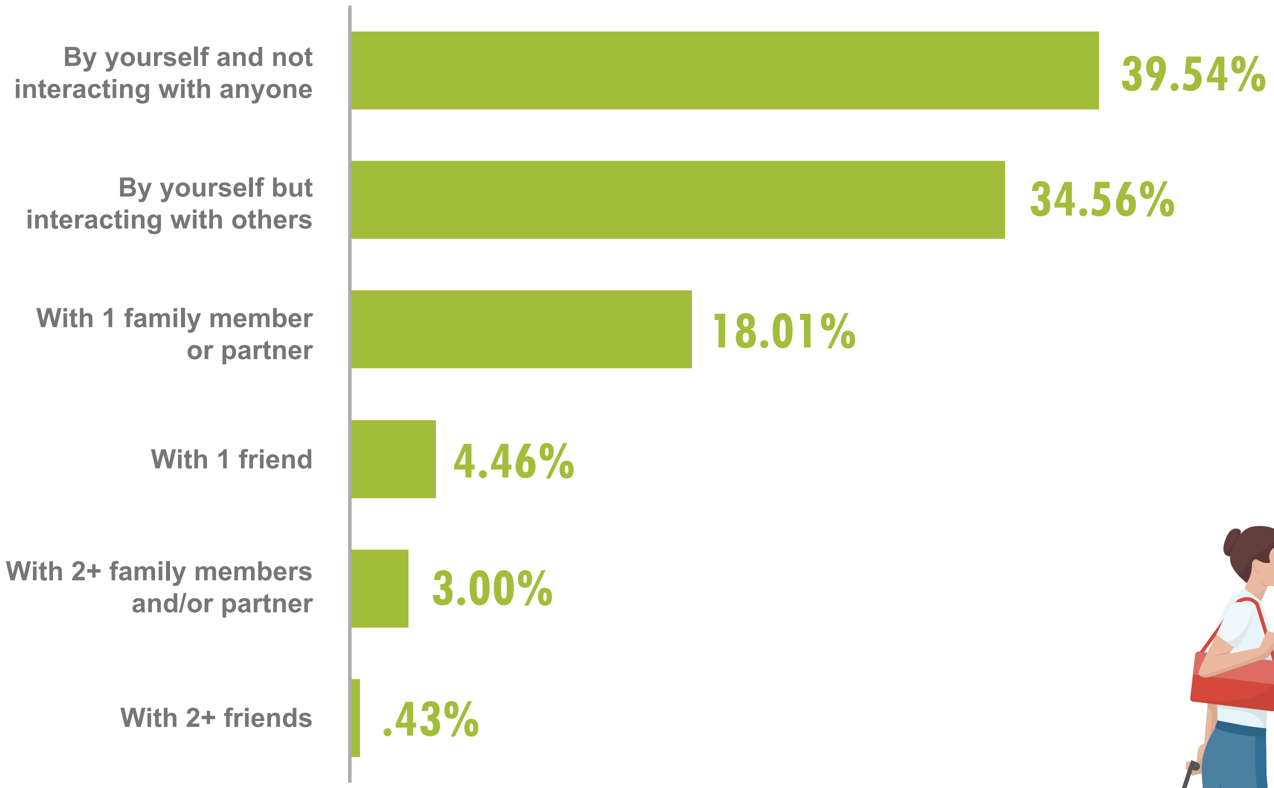
TRENDSOURCE TRUSTED INSIGHT

CONSUMERS PREFER TO SHOP ALONE

To close out the report, we wanted to consider the social aspects of shopping. In what social contexts, and with whom, do consumers want to shop. Some shoppers are headphones-in, volume-up silent shoppers who want no human interaction while getting our groceries. Others want a hand to hold, a second opinion to consider.

PREFERRED WAY TO SHOP FOR GROCERIES

OVERALL

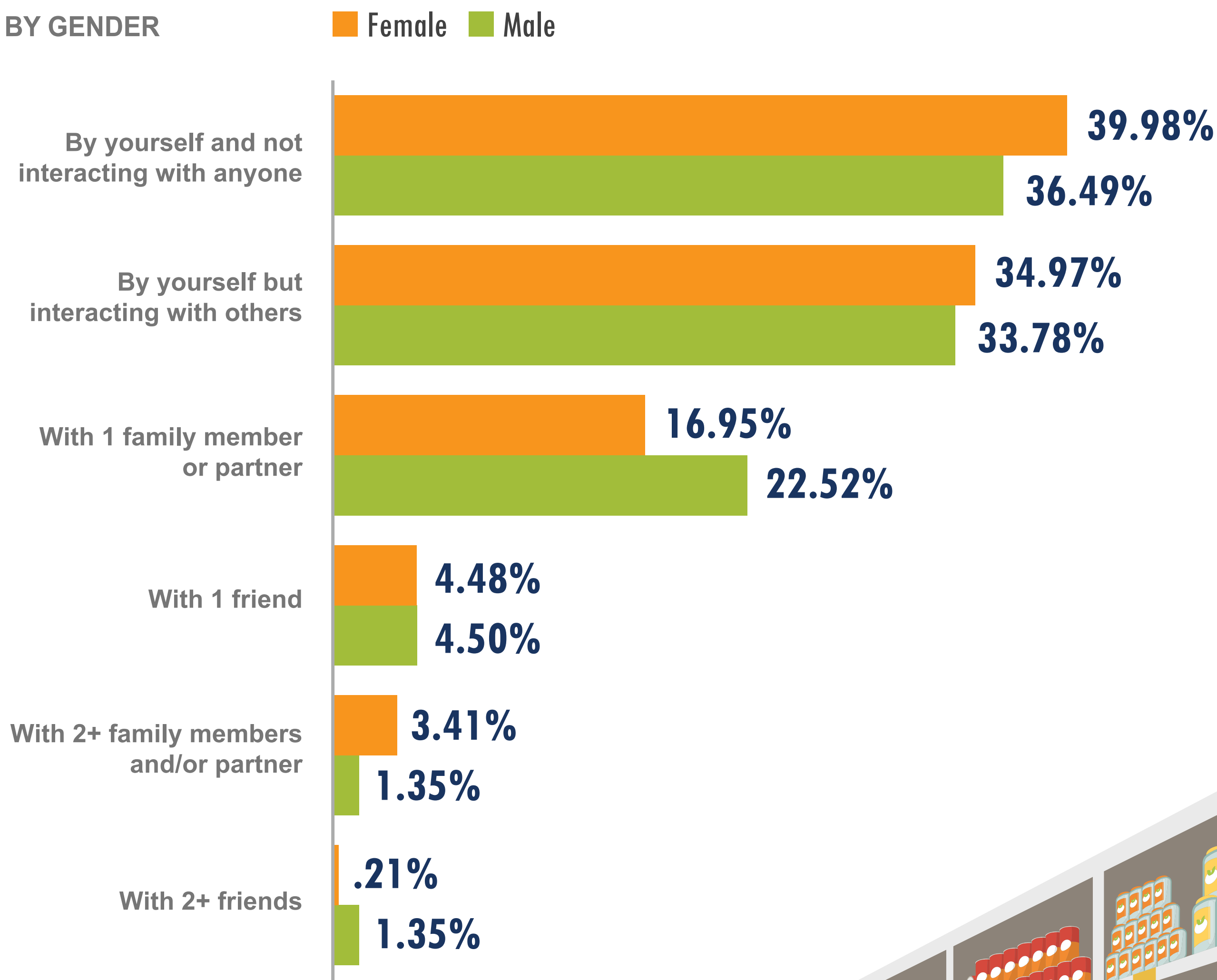


The majority of shoppers prefer to shop alone and avoid as much inter-personal interaction as possible (39.54%) followed closely by shopping alone but interacting with others in the store, be they other shoppers or staff. Only a combined 27% of shoppers would prefer to shop with somebody else, be it a family member or partner (18.01%), a friend (4.46%), or with two or more individuals (3.43%).

It is notable that nearly 40% of shoppers want to shop alone and without any interaction beyond the podcast likely playing in their earbuds. Stores should consider this when creating customer service training modules that should help staff begin to discern the difference between shoppers looking for a friendly hand and those looking to merely be left alone.

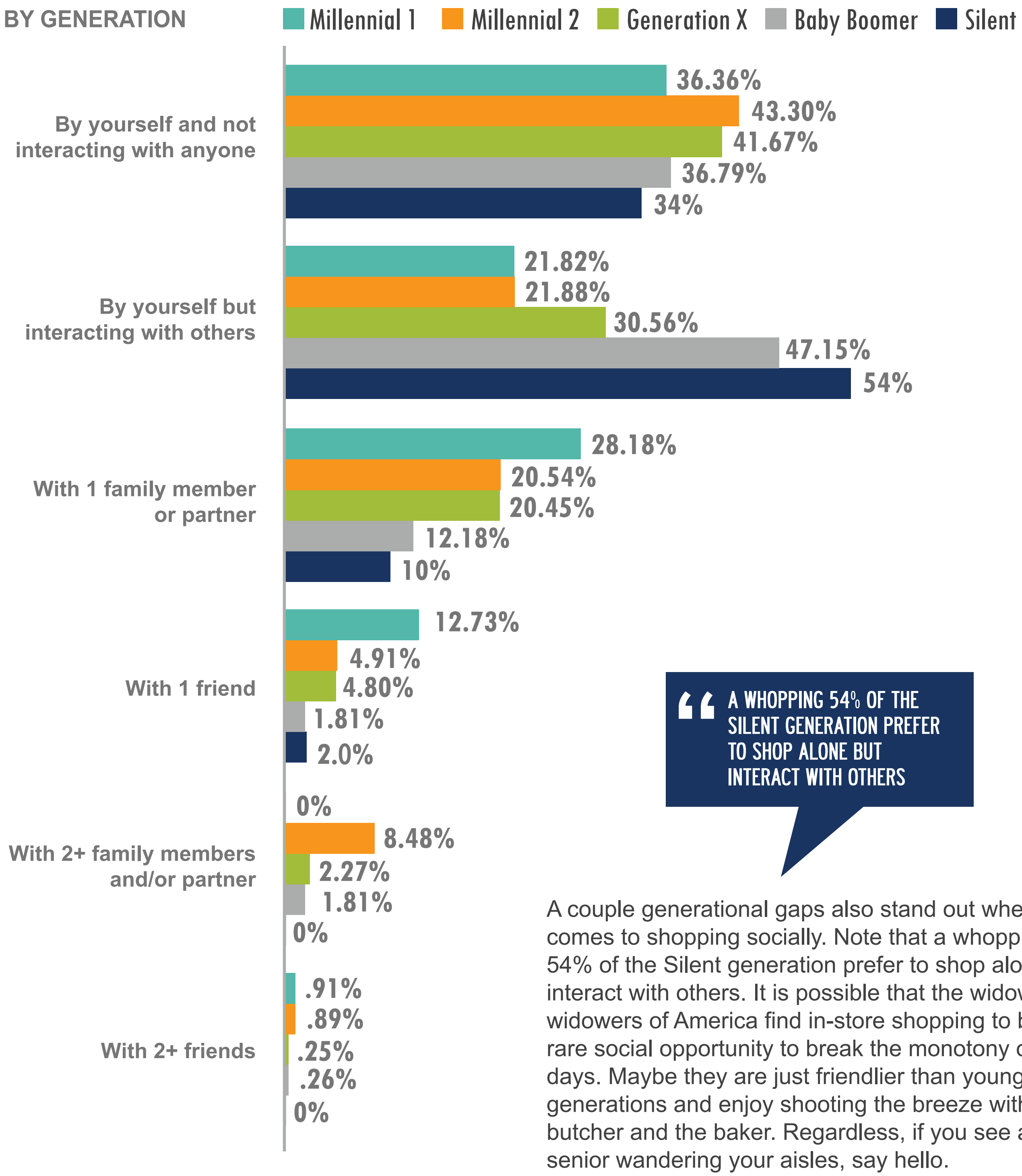
> “ 40% OF SHOPPERS WANT TO SHOP ALONE AND WITHOUT ANY INTERACTION

PREFERRED WAY TO SHOP FOR GROCERIES



Though we are not offering any insight into twenty-first century gender relations, it is interesting that men prefer to shop with a family member or partner disproportionately compared to women—they are five percent likelier to prefer shopping with their partner or family member. Stereotypes about men being lost in a grocery store without their house making wife are long stale, but the fact remains that women, more than men, prefer to shop alone.

PREFERRED WAY TO SHOP FOR GROCERIES



> “ A WHOPPING 54% OF THE SILENT GENERATION PREFER TO SHOP ALONE BUT INTERACT WITH OTHERS

A couple generational gaps also stand out when it comes to shopping socially. Note that a whopping 54% of the Silent generation prefer to shop alone but interact with others. It is possible that the widows and widowers of America find in-store shopping to be a rare social opportunity to break the monotony of their days. Maybe they are just friendlier than younger generations and enjoy shooting the breeze with the butcher and the baker. Regardless, if you see a lone senior wandering your aisles, say hello.

Also, note that millennial 1s are nearly 10% likelier (28.18%) to shop with a family member (likely a parent paying for the groceries!) and 8% likelier to shop with one friend (likely a roommate).

However they shop, of course, grocers are just glad to see them in their store.

KEY RECOMMENDATIONS:

- Avoid politics whenever possible. Sure, we all have ideas about our moral responsibility to ourselves and our public, but the numbers simply are not there. In any other situation, a 10% favorability gap would be prohibitive; it should be here as well. When the potential hit is larger than any potential bump, the math is simple.

- Continue pushing forward with alternative in-store checkout options. Though the adoption and interest are not there among older shoppers, these options will become table stakes by the time millennials are pushing their children around the grocery store.

- It should go without saying but keep your store clean at all times! With pricing becoming a zero-sum battleground, this seems to be the most important differentiator to consumers, with the power to turn them off completely but also to bring them into the store if you get it right.

- Develop a digital user experience that encourages browsing. It's something consumers want to do, and something you want consumers to do.

- Smile and say hello to every senior in your store. They want you to.

THANKS FOR READING THE 2018 GROCERY INDUSTRY REPORT!

For more consumer insights, visit our Consumer Study Page at
http://trustedinsight.trendsource.com/consumerinsightstudy

HOW CAN WE HELP YOUR BUSINESS?

CONTACT US TO SCHEDULE A FREE CONSULTATION.

TRENDSOURCE
TRUSTED INSIGHT

TrendSource, Inc.
4891 Pacific Highway, Suite 200
San Diego, CA 92110

(619) 718.7467

www.trendsource.com

Find us on: