The Omnichannel Journey:
Translating Big Data into a Prescription for Growth

IRi

Growth delivered.

Executive Summary: The Rise of the One-to-One Future

Industry growth is elusive. The rise of just-in-time shopping is driving growth of smaller footprint stores, leaving retailers in search of more profitable business models.

- Volume growth is flat; dollar sales are being driven by inflationary prices; store growth is coming largely from increasing store count

- E-commerce is feeding an omnichannel shopping frenzy

- Shoppers are spending their money across more channels and store formats

Retailers that adopt a customer management perspective will capture increased share of 360-degree spending and maximize customer lifetime value. Retailers must personalize the experience for each shopper across the entire path to purchase.

- Know what key and target shoppers are looking for

- Engage shoppers when, where and how it matters most to them

- Deliver against needs and wants at the right time, through the right channel and at the right price

To truly succeed, retailers must undergo a major cultural shift.

- The complex retail environment and unique goals have rendered turnkey market analyses inefficient

- Category and item management practices fail to tap into the depth of insights available through loyalty program data

- Suppliers and retailers are just beginning to realize the value of working in a truly collaborative manner

Framework to Win: IRI ProScores™ drives higher share of wallet by focusing on highest value customers and potential customers.

- Capture a total market view of customer spending

- Form supplier-retailer collaborative relationships to personalize offers and optimize campaigns throughout the flight

- Tap into critical touchpoints along the shopper journey to strengthen brand equity and enhance brand image

The Grocery Industry is in the Midst of an Omnichannel Revolution

Industry Growth Remains Elusive

The grocery industry has been struggling to find growth for several years now. Volume sales have remained largely flat since before the end of the Great Recession and dollar sales have largely been the result of falling promotional activity and inflationary pricing trends (see exhibit 1). Retail growth is coming largely from store population expansion efforts.

Quick trips—those "I need it now" grocery excursions—account for two-thirds of shopping visits and just over one-third of the grocery expenditures (see exhibit 2). At a macro level, quick trip share of the country's estimated 20 million grocery shopping excursions has remained fairly steady during the past few years.

Still, an important shift is occurring under the surface. Shoppers' approach to fulfilling their grocery needs is quickly evolving and just-in-time shopping has already become the norm. Shoppers are increasingly spreading their dollars across more channels and store formats.

Retailers are grappling to capture share of these increasingly fragmented trips. Keeping pace with consumer- and market-driven changes will be essential to winning in this complex marketplace.

EXHIBIT 1

Industry dollar sales growth is slow and driven primarily by price increases.

Industry Growth

$ BILLIONS

2014	2015	2016	2017	2018
$751.9	$775.5	$793.5	$809.4	$825.6
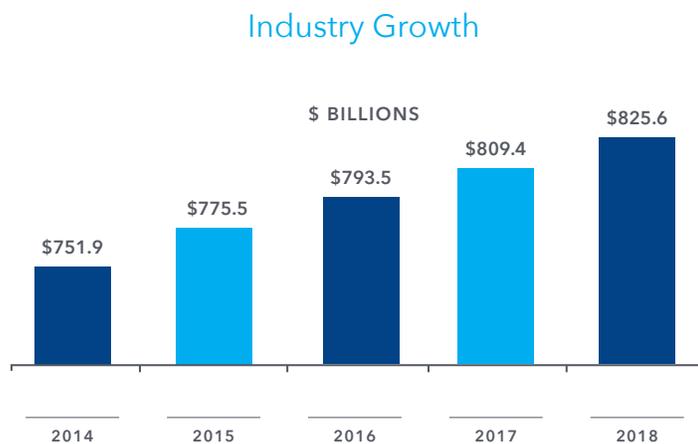
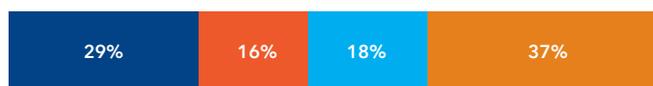Source: IRI MarketAdvantage™ 52 weeks ended 7/10/2016 and same period prior years

EXHIBIT 2

Macro-level trip and basket trends remain steady, but changes are occurring under the surface.

Trips by Trip Mission

11%	12%	13%	64%

Basket Size by Trip Mission

29%	16%	18%	37%

■ PANTRY STOCK UP ■ FILL-IN ■ SPECIAL PURPOSE ■ QUICK TRIP

Source: IRI CSIA™ 52 weeks ended 8/7/2016 (NBD)

Retailers are Experimenting with New Formats in Search of More Profitable Business Models

The major shift in how consumers approach grocery shopping is having a ripple effect throughout the industry (see exhibit 3).

More than 90 percent of store growth is coming from increasing store count, particularly in the form of smaller-format stores, and this has retailers keenly focused on ensuring they are ready to compete in this environment by having the right store format in the right geography at the right time.

For example, Kroger's Marketplace format, which averages 100,000 to 130,000 square feet, as compared to the average Kroger store size of over 165,000 square feet, is expanding rapidly (from 86 in 2013 to more than 128 in 2016), at the expense of the standard-size stores.
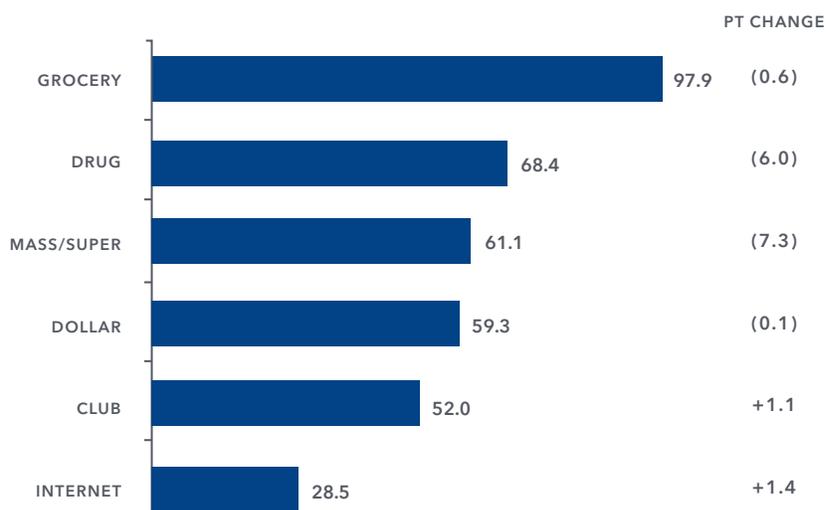
Other larger-format channels are also making adjustments. Target and Walmart are looking to increase profitability and efficiency by rolling out more Target Express and Walmart Neighborhood Markets, respectively, to tap into existing urban markets and cater to customers that do not want to invest the time and effort to shop big-box stores.

And, though the drug channel is grappling with challenges around trip consolidation and leakage to both higher-end and value formats, retailers here continue to expand store count to secure a position in the right place at the right time.

EXHIBIT 3

Internet and club channels are winning increased penetration, while competing channels are struggling to maintain ground.

Penetration by Channel and Point Chg vs 2013

		PT CHANGE
GROCERY	97.9	(0.6)
DRUG	68.4	(6.0)
MASS/SUPER	61.1	(7.3)
DOLLAR	59.3	(0.1)
CLUB	52.0	+1.1
INTERNET	28.5	+1.4

Note: Grocery and Mass/Super figures do not include Walmart
Source: IRI CSIA™ 52 weeks ended 8/72016 and same period 2013; no NBD alignment

This is an evolutionary change within the grocery industry. The desire for quick and easy trips is driving the proliferation of smaller stores. This, in turn, is creating more fragmentation in the shopping pool, including more trips across more stores.

Retailers are balancing the need for efficiency against the drive for comp store sales growth and return on inventory investment. It's a complex and dynamic situation that requires the constant reevaluation and refinement of store format and inventory strategies.
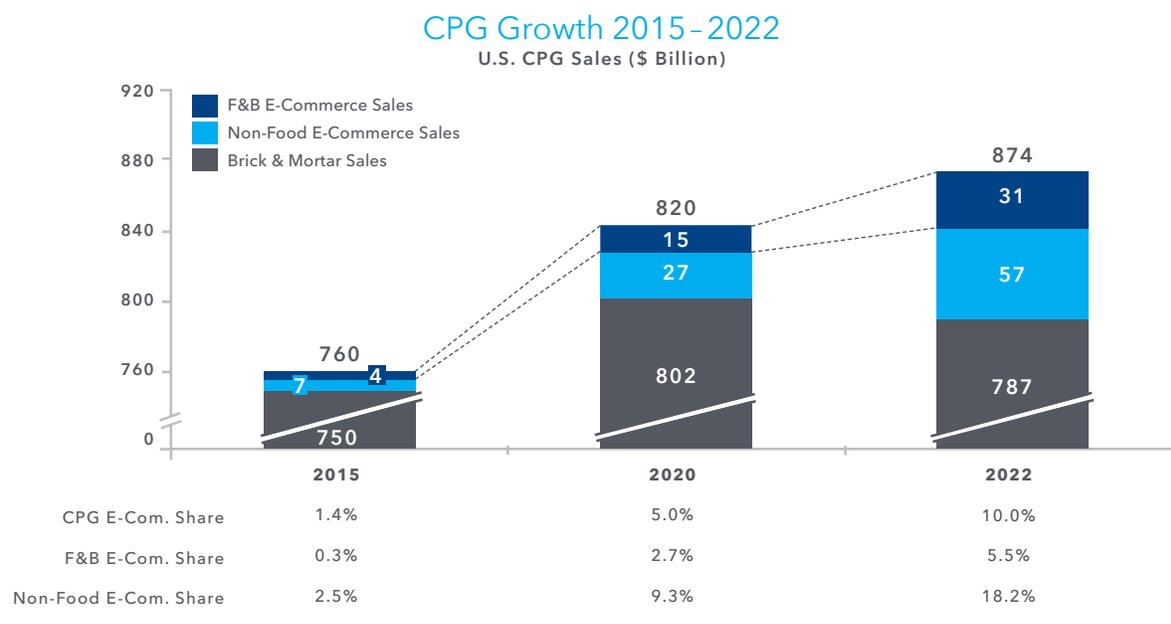
Above all, these models must stay in lockstep with evolving shopper behaviors and trip patterns, so retailers are investing to establish and maintain a 360-degree understanding of consumer shopping behavior.

Source: Company websites and annual reports

E-commerce is Having a Transformative Effect on the Grocery Industry

Rapid expansion of CPG e-commerce is expected, and it will have a ripple effect through the retail industry.

CPG Growth 2015 – 2022
U.S. CPG Sales ($ Billion)

Legend:
- F&B E-Commerce Sales
- Non-Food E-Commerce Sales
- Brick & Mortar Sales

2015: 760 total — F&B E-Commerce 4, Non-Food E-Commerce 7, Brick & Mortar 750
2020: 820 total — F&B E-Commerce 15, Non-Food E-Commerce 27, Brick & Mortar 802
2022: 874 total — F&B E-Commerce 31, Non-Food E-Commerce 57, Brick & Mortar 787

	2015	2020	2022
CPG E-Com. Share	1.4%	5.0%	10.0%
F&B E-Com. Share	0.3%	2.7%	5.5%
Non-Food E-Com. Share	2.5%	9.3%	18.2%

Source: IRI Growth Consulting Analysis

E-commerce presently accounts for a less than 2 percent of overall CPG sales (see exhibit 4). Growth is explosive; by 2022, share will climb into the double-digit range.

Small overall dollars and share notwithstanding, IRI's recent point of view report, "**Playing to Win in the Rapidly Evolving Omnichannel Ecosystem**," details the fact that the disruptive emergence of e-commerce in grocery is overturning traditional sales models and leaving marketers to reevaluate the way they do everything, from store location and format to assortment and delivery.

Inventory management, in particular, is a critical consideration for retailers, since inventory costs are among the largest costs retailers absorb. To profitably serve the evolving needs of omnichannel shoppers, retailers must invest to understand the size of e-commerce across all categories, so they are prepared to balance inventory across the two realms, minimizing out-of-stock situations without carrying excess stock and allowing unnecessary costs to eat away at already razor-thin margins.

While pondering the complexity and vastness of this new realm is enough to give even the heartiest retailers heart palpitations, companies are nonetheless wading in and establishing e-commerce strategies.

Getting it right isn't easy, but leveraging knowledge about how shoppers move in the e-commerce realm is absolutely essential to winning in the omnichannel world.

Win in an Omnichannel World: Maximize Customer Lifetime Value across Current and New Customers

Retailers Must Approach Insights with a 360-Degree Customer-Centric Mind-Set

EXHIBIT 5

Retailers are looking to maximize customer lifetime value.

4 STEPS for capturing increased share of 360-degree spending

STEP **04** REACTIVATE CUSTOMERS THAT HAVE LAPSED

STEP **03** ACTIVATE NEW SHOPPERS

STEP **02** GROW CURRENT CUSTOMERS

STEP **01** REWARD CURRENT CUSTOMERS

INVESTMENT NEEDED

The growth of e-commerce and the proliferation of omnichannel shopping is making it more challenging than ever to serve the customer well. The marketplace has become much more fragmented—there are more places to shop; there are more products to choose from. This leads to channel migration and channel blurring.

To find true organic growth in this type of environment, a clear 360-degree view of shopper spending is essential. With this perspective comes the ability to know what key and target shoppers are looking for. From there, the focus is on engaging shoppers where, when and how it matters most to them to deliver against needs and wants at the right time, through the right channel and at the right price.

Those who execute well against this strategy will find growth and win share. This will come from some combination of four possible pathways (see exhibit 5).

Industry experts estimate that it costs anywhere from five to 25 times more to acquire a new customer than it does to retain an old one.[1] Clearly, then, customer retention is critical. And, by enhancing customer utilization, retailers can find growth by going one critical step beyond retention—maximizing the lifetime value of each and every one of those customers (CLV).

[1] Source: Harvard Business Review, "The Value of Keeping the Right Customers," October 29, 2014

Moving Customers Up the Loyalty Ladder Brings Sustainable Organic Growth

Maximizing CLV begins with understanding key and target customers and assessing their level of customer loyalty. Since loyalty is a function of several factors, including frequency of visit, basket size and share of spend within the retail store, the analysis is fairly complex. And, of course, each retail banner—even each retail location—will have its own unique loyalty spectrum.

While that spectrum is likely to be broad, even the most loyal customers pose significant upside potential for retailers (see exhibit 6). The top 30 percent of customers typically account for 75 to 80 percent of total store sales. Even the top 10 percent of customers, though, spend just $0.50 of every dollar at that retailer. For shoppers lower down on the ladder, share of spending is significantly lower and headroom is even greater.

By shifting from a category management perspective to a customer management perspective, retailers will not only acquire new customers, but also move customers up the loyalty ladder, driving share growth and wringing maximum value from each and every customer.

EXHIBIT 6

Retailers have significant opportunity to capture increased share of spending across their customer base.

TOP 10% — of super loyal customers typically spend only **$0.50** of every **$1.00** at that retailer.

10 to 20% — spends only **$0.25** of every **$1.00** at that retailer.

20 to 30% — spends only **$0.12** of every **$1.00** at that retailer.

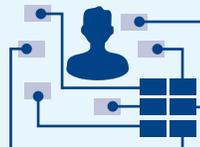**BOTTOM 70%** — spends only **$0.05** of every **$1.00** at that retailer.

Real-time personalization is key to consistent customer activation.

It's about real-time personalization.

Ad Addressability   Data Integration   Measurement

Retailers Must View Growth Through a New Lens
To Truly Succeed, Retailers Must Undergo a Major Cultural Shift

Making a change of this magnitude is not an easy thing. To the contrary, it requires a major shift in mind-set and approach, and that is very difficult indeed.

The U.S. retail landscape is quite complex, and logically, retailers across this landscape have different goals and priorities. As a result, they have long preferred to examine the market in their own unique context in the hopes of uncovering unique growth opportunities. Standard, turnkey market analyses do not allow for enough granularity or customization for this purpose.

Additionally, the vast majority of retailers are quite entrenched in traditional category and/or item management strategies. While there are certainly a handful of best-in-class retailers that are already "doing personalization" well, most are just beginning to tap into the wealth of knowledge made possible from their loyalty programs coupled with advancements in technology and analytic know-how.

Loyalty programs are flush with information about members—from category and brand preferences to price and promotion sensitivity. These programs are a key to developing marketing campaigns that target and resonate with a retailer's best customers.

To make the shift even more challenging, the supplier-retailer relationship has always been guarded, and the exchange of information between the two has been minimal.

Only now is this beginning to change. Only now are retailers and manufacturers realizing that if they are to truly serve the customer well, they will need to join forces and become highly collaborative in their customer relationship management efforts.

Build Loyalty and Share of Wallet with Customer-Focused Big Data and Know-How

Personalization Begins with Knowing the Shopper

Personalization will be the crux of future retail success. This does not mean retailers should abandon mass marketing programs. Rather, the future will be about balancing mass efforts with targeted programs aimed at deepening the customer's relationship with the retailer. Every customer can be targeted based on their own sensitivities to marketing programs. But getting it right requires having a true understanding of the needs of key and target customers, and then executing—bringing to bear marketing programs, the right products and assortments with the right prices, and highly relevant and tightly targeted marketing messages aimed at positively influencing customer loyalty.

IRI has developed an integrated ecosystem of customer-focused big data that provides the insights and analytic know-how to reveal customer attitudes and behaviors with the granularity needed to make this happen (see exhibit 7).

The ecosystem integrates over 30 datasets of total-market customer and measurement data, resulting in an unparalleled, 360-degree, view of the customer, and thousands of product attributions. Tapping into historical behaviors offers a great lens into what the future holds, particularly when these past behaviors can be integrated and analyzed as a collective knowledge bank.

This enables retailers and suppliers to develop deeper, more relevant insights across the entire path to purchase and all touchpoints. In the end, these insights allow for richer customer segments, enabling two-times better targeting, more personalized activation, and real-time sales measurement and in-flight optimization.

EXHIBIT 7

IRI's end-to-end customer platform is the best on the market, with capabilities that set us apart from the rest.

Key Differentiators

Fully integrated end-to-end personalization platform leveraging best-in-class technology

The largest repository of seamlessly integrated consumer and market data in the world

Greater depth and granularity for better consumer segments

Two times better targeting than the leading competitor

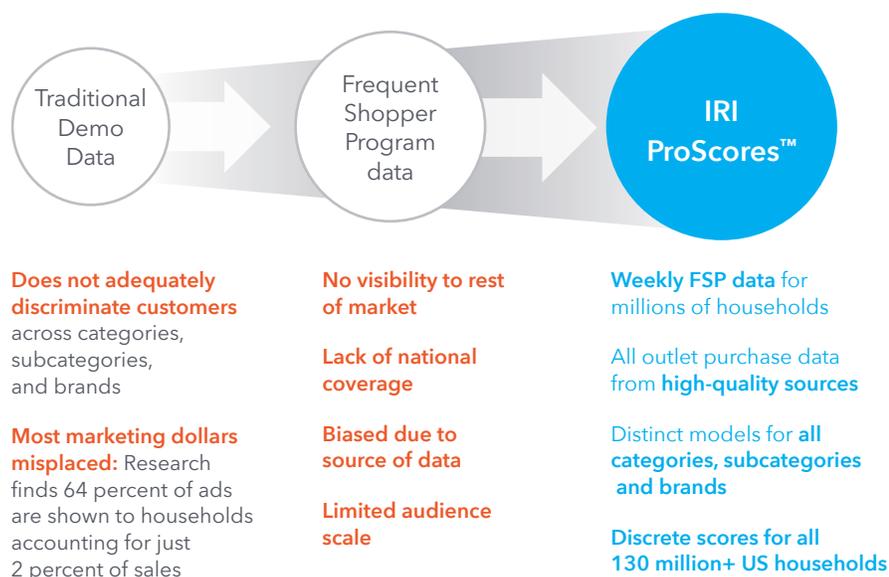Insights, targeting, and activation at the speed of the consumer

Unparalleled real-time measurement and in-flight optimization

IRI ProScores Drives Higher Share of Wallet by Focusing on Highest Value Customers and Potential Customers

EXHIBIT 8

IRI ProScores finds the most valuable total-market buyers of categories that retailers cannot see with their loyalty data alone, and quantifies the addressable value that retailers can strive to gain.

Traditional Demo Data	Frequent Shopper Program data	IRI ProScores™	
Does not adequately discriminate customers across categories, subcategories, and brands	**No visibility to rest of market**	**Weekly FSP data** for millions of households	IRI ProScores increases sales lift by 8X for brands and 5X for categories versus traditional targeting methods
Most marketing dollars misplaced: Research finds 64 percent of ads are shown to households accounting for just 2 percent of sales	**Lack of national coverage**	All outlet purchase data from **high-quality sources**	
	Biased due to source of data	Distinct models for **all categories, subcategories and brands**	
	Limited audience scale	**Discrete scores for all 130 million+ US households**	

Retailers have vast amounts of data to bring to the collaborative relationship. Traditional scanner and demographic data provide some visibility into important shopper attitudes and behaviors. But they do not provide sufficient visibility to get a 360-degree view of shopping and spending habits.

By putting millions of consumers and billions of transactions into play, retailer frequent shopper program (FSP) data provides depth of insight and concrete answers to vital questions around key targets and impacts of marketing efforts. But, unfortunately, FSP data alone does not provide holistic insight into customer behaviors, since it lacks visibility into rest of market and national coverage. It is also inherently biased and limited in nature.

IRI's ProScores provide a total market view of each customer's spend on a product (see exhibit 8). By combining traditional scanner and panel data, along with FSP data, ProScores finds the most valuable total-market buyers of categories that retailers cannot see with only their loyalty data, and quantifies the addressable value that retailers can strive to gain.

With this knowledge, retailers can begin to personalize offers at the beginning of the campaign planning process. They can also collaborate with their supplier partners to develop and execute promotional campaigns.

And, with IRI Lift, retailers and suppliers can glean deep and accurate multichannel campaign sales and brand impact insights during campaign flight, allowing for course correction and optimization that will drive true one-to-one marketing, significantly increasing customer activation and, in turn, return on advertising spending.

Integration across the Customer's Path to Purchase is Essential to the Personalization Process

Core to personalization is integration of customer's path to purchase and demographics to build a base multi-touch attribution.
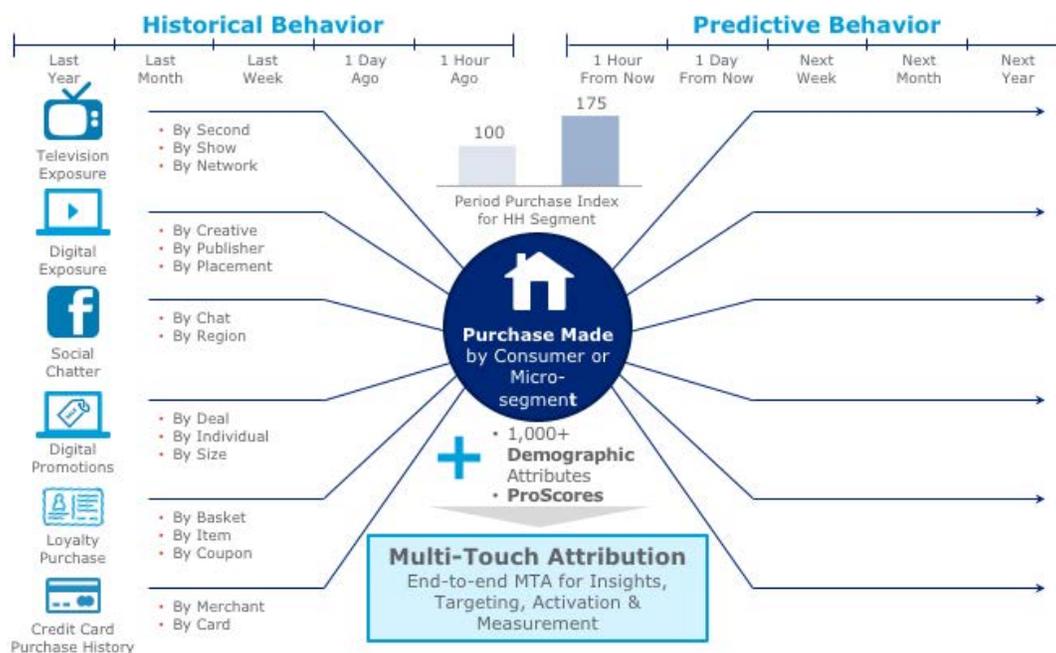
The path to purchase is no longer a straight line. It is a maze of twists and turns, with thousands of points of interaction along the way. With so many touchpoints in play, it is essential that marketers have the ability to identify the most important touchpoints and understand how those touchpoints fit together. Through multi-touch attribution (MTA), IRI is able to make these distinctions, allowing marketers to understand what truly moved the needle in the purchase decision (see exhibit 9).

Multi-touch attribution integrates disparate historical databases, including purchase indices, an array of media and promotion exposures, credit card transactions, and more, to create a clear understanding of customers' historical behaviors prior to the point of purchase. It also lays the groundwork for predicting future behaviors.

This prediction is essential to customer relationship management efforts. By understanding what to expect, retailers can be ready to deliver against those needs, wants and behaviors, optimizing and personalizing the experiences for customers. Detailed in IRI's recent technical paper, "**Media and Promotion Effectiveness: Shifting 10 Percent of Promotion Spending to Media Advertising Will Increase Marketing ROI by 10 to 25 Percent**,"

there are opportunities to inform and influence the shopper decision all along the customer journey. Equity and branding creative are impactful earlier in the journey, while later in the process, call-to-action creative comes into play. But the exact timing of the messaging will vary based on customer, mission and a variety of other factors. In each situation, retailers must invest to understand where their brand is weakest and develop creative to enhance the brand image.

This type of highly targeted and nuanced interaction will drive more trips, higher conversion, greater share of wallet and increased margin.

Measure and Optimize

Continual optimization brings enhanced return on investment.

IRI Optimization Process
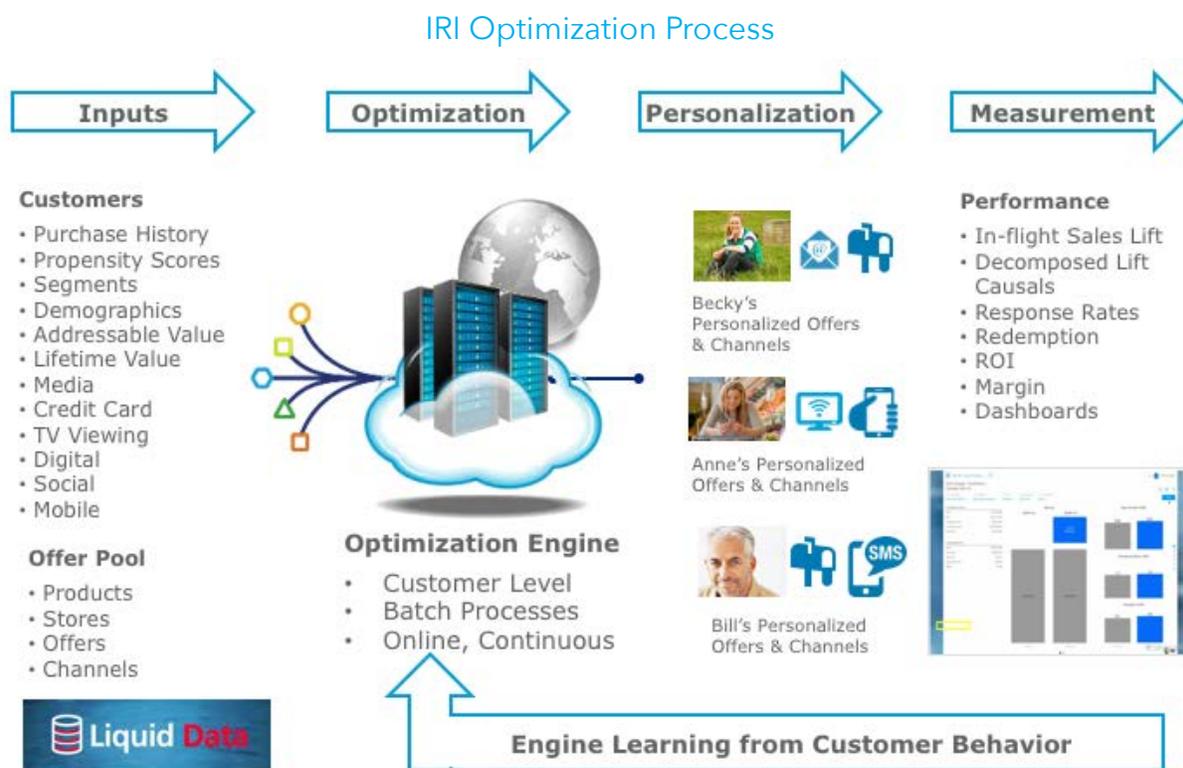
These interactions must be optimized constantly to provide the best offers per customer and the best customers per category. But continuous refinement is an essential aspect of customer relationship management and any campaign optimization process. After all, customer needs and wants are constantly evolving based on any number of circumstances, including trip mission and changing life circumstances. As such, it is essential that offers also evolve to stay in lockstep with the changing customer mind-set (see exhibit 10).

With the initial personalization strategy in place, the multi-touch campaign is designed. Assortment is aligned to customer buying patterns, and merchandising and pricing decisions are made. Loyalty programs, media programming and multi-channel communications are put into play.

Tailored messages and discount rates are developed. A personalized set of offers is generated from the offer pool across each customer's preferred channels. Throughout program execution, likelihood of response and actual response rates and sales lift are assessed, and the offers are refined to enhance the customer's likelihood of responding favorably in the future.

Customer Success Story

Utilizing ProScores, IRI Identified the Most Growable Shopper Segments and Recommended Assortment Changes

THE CHALLENGE

A retailer, facing increasing market headwinds as non-traditional grocery retailers (e.g., drug and dollar stores) added fresh food and grocery products, came to us looking to grow food sales across its current customer base.

APPROACH

We scored each of the client's customers on four elements for both the total store and food/grocery:

- Total food/grocery market spend

- Client share of wallet gap

- Propensity to shop at client

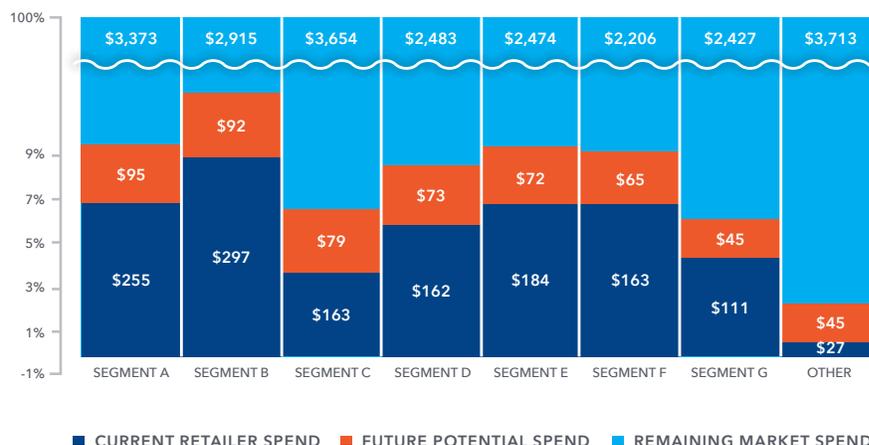- Customer profile and sales opportunity

With these scores, we evaluated sales growth opportunities by customer lifestyle segment, opportunity type, product class, etc.

IMPACT

The expanded and optimized program yielded a 250 percent increase in online audience reach, bringing in nearly $3 million in incremental revenue opportunity.

OPPORTUNITY TYPE	PRODUCT CLASS	PRODUCT CLASSES BY CUSTOMER SEGMENT	
		SEGMENT A	SEGMENT B
Trial Only • Increase number of guests purchasing class	• Bread • Breakfast Foods • Family Meals	• Breakfast Foods • Dressing/Mayo/Crouton • Peanut Butter/Jelly • Vegetable	• Bread • Peanut Butter/Jelly • Dinners & Entrees • Yogurt
Growth Only • Increase spend of guests already purchasing class	• Meat Alternative • Pizza • Specialty Milk • Yogurt	• Dinners & Entrees • Cocoa	• Canned Pasta/Tomato • Cheese • Pizza • Specialty Milk

We also projected the sales our client could capture from an individual customer with a reasonable amount of marketing and merchandising effort:

Chart data:

	SEGMENT A	SEGMENT B	SEGMENT C	SEGMENT D	SEGMENT E	SEGMENT F	SEGMENT G	OTHER
Remaining Market Spend	$3,373	$2,915	$3,654	$2,483	$2,474	$2,206	$2,427	$3,713
Future Potential Spend	$95	$92	$79	$73	$72	$65	$45	$45
Current Retailer Spend	$255	$297	$163	$162	$184	$163	$111	$27

■ CURRENT RETAILER SPEND ■ FUTURE POTENTIAL SPEND ■ REMAINING MARKET SPEND

Resources

If you enjoyed this report, you may be interested in the following IRI products and services, which constitute the most comprehensive end-to-end customer insights to activation to measurement platform available in the industry:

For the most comprehensive end-to-end customer insights to activation to measurement platform available in the industry, rely on the **IRI Liquid Data™ Platform**

IRI Liquid Data™ (ILD) manages big data through a combination of software, patented algorithms, industry models, data integration and supporting applications. ILD stores, integrates and harmonizes disparate data sources, leveraging predictive automated analytics to generate granular insights and inform business decisions in real time. It's accessed using IRI's public or private cloud solutions.

To fuel iterative consumer and shopper analyses on the fly, turn to **IRI Consumer and Shopper Insights Advantage™**

Leveraging IRI's revolutionary Liquid Data Platform, CSIA serves up trial and repeat, product switching, basket-level co-purchase, category leakage and other key consumer analyses to better inform brand marketing decisions and protect and grow business at retail.

To identify high-value targets based on actual purchase behavior, turn to **IRI ProScores™**

IRI ProScores™ is a proprietary audience targeting and segmentation methodology that predicts the magnitude that each individual U.S. household spends in every CPG category, subcategory and major brand. IRI ProScores enables CPG marketers to focus on the households that spend the most money in defined categories, subcategories and major brands.

To identify high-value targets based on actual purchase behavior, turn to **IRI Shopper KnowledgeBase™**

IRI Shopper KnowledgeBase™ is IRI's next-generation shopper insights platform. It allows for deeper and never-before-available shopper insights for both large and small brands. Data in SKB consist of over 2,000 stores, representing more than 20 banners and over $30 billion dollars in annual sales.

To accurately determine sales lift across touchpoints throughout the customer journey, turn to **IRI Multi-Touch Attribution Modeling™**

IRI Multi-Touch Attribution Modeling™ measures return on investment accurately by apportioning lift to online and offline touchpoints across the consumer journey, including upstream touchpoints, not just the last.

Resources

To link media exposure to actual sales, turn to **IRI Lift™**

IRI Lift™ seamlessly integrates IRI's vast ecosystem of data to empower marketers to fully understand actual in-store sales lift impact of ad spend in real time throughout a campaign. IRI Lift delivers the industry's mogranular and most accurate multi-channel projection to help drive growth in real time.
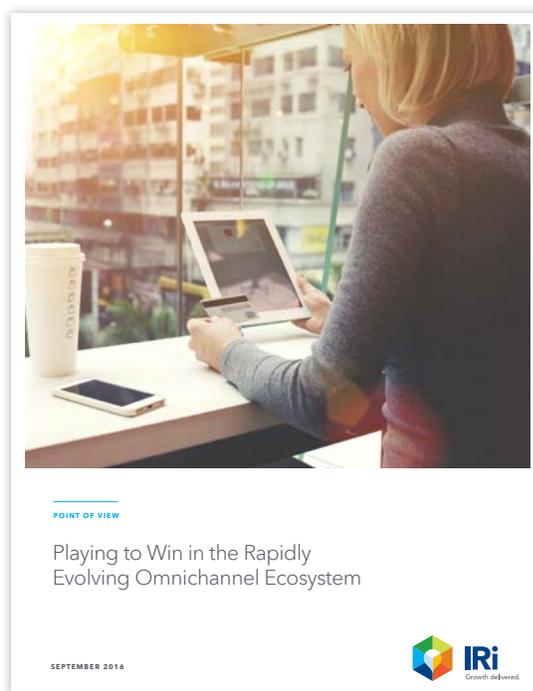
To create deep and granular shopper targeting segments and highly personalized promotions, turn to **IRI Audience Builder™**

IRI Audience Builder™ enables deep and granular segmentation and targeting of shoppers leveraging the vastness of ILD. IRI's personalization engine further enables offer optimization and 1-to-1 targeting of those offers to shoppers utilizing proprietary deep learning algorithms.

To activate shoppers through omni-channel multi-touch campaigns, turn to **IRI CSM Activation™**

IRI CSM Activation™ delivers automated multi-touch marketing campaigns across any channel, including email, SMS, social, direct mail, mobile and digital through our powerful and easy-to-use marketing automation platform. Platform analytics provide deep insight into campaign activity, sales uplift and return on ad spending, enabling mid-campaign optimization.

Related Materials

POINT OF VIEW

Playing to Win in the Rapidly
Evolving Omnichannel Ecosystem

SEPTEMBER 2016

IRi
Growth delivered.

FOR MORE INFORMATION

Please contact Susan Viamari at **Susan.Viamari@IRIworldwide.com** with questions or comments about this report.

About IRI
IRI is a leader in delivering powerful market and shopper information, predictive analysis and the foresight that leads to action. We go beyond the data to ignite extraordinary growth for our clients in the CPG, retail and over-the-counter health care industries by pinpointing what matters and illuminating how it can impact their businesses. Move your company forward at IRIworldwide.com.

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