Overview of benchmarking companies

More than 300 innovative concepts were reviewed from 20 countries. These are a good source of inspiration for business opportunities and more information about these examples can be found on our website www.rolandberger.co.uk/European-retail.

This report was prepared for CCRRCE by Roland Berger.

This report is a summary for general information only.

FIFTY WAYS TO GROW IN EUROPEAN RETAIL

FIFTY WAYS TO GROW IN EUROPEAN RETAIL

NEW GROWTH OPPORTUNITIES BASED ON POORLY MET SHOPPER NEEDS

Coca-Cola RETAILING RESEARCH COUNCIL

A study conducted for the Coca-Cola Retailing Research Council Europe by Roland Berger Strategy Consultants in association with Europanel

Roland Berger Strategy Consultants

europanel the leader in consumer knowledge

About Coca-Cola Retailing Research Council Europe (CCRRCE)

This report presents selected results of the CCRRCE study into growth opportunities in the European retail market, conducted by Roland Berger Strategy Consultants in association with Europanel.

We wish to extend a special thanks to Anthony Freeling, the Research Director of CCRRCE.

Composition of CCRRCE (as of October 2011):

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Mr Harald Antley, Aspiag Services,
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Mr Roberto Tojeiro, Gadisa,
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Mr Trevor Masters, Tesco,
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Mr Wolfgang Gutberlet, Tegut,
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For more information about CCRRCE, visit www.cokesolutions.com

About Roland Berger Strategy Consultants

Founded in 1967, Roland Berger Strategy Consultants have grown to become one of the leading global strategy consulting firms in the world with annual revenues of USD 1 billion and more than 2,000 professionals. The company is owned by its 200 partners and has 45 offices in 33 countries around the world.

For more information, visit www.rolandberger.com

About Europanel

Europanel measures consumer behaviour to understand market movements and their implications. Its primary sources are high quality continuous consumer panels, run in over 50 countries by its owners GfK and Kantar Worldpanel - two of the top 10 marketing information companies in the world.

For more information, visit www.europanel.com

Contents

Foreword from Denis Knoops, Delhaize Group, Chairman of CCRRCE (2009-11)

"European grocery retailers are all looking for growth. We see similar trend data, but are there shopper needs that are well known but still poorly met? And can retailers increase profit by better meeting those needs?"

Executive summary

Where will future growth come from in European retail?

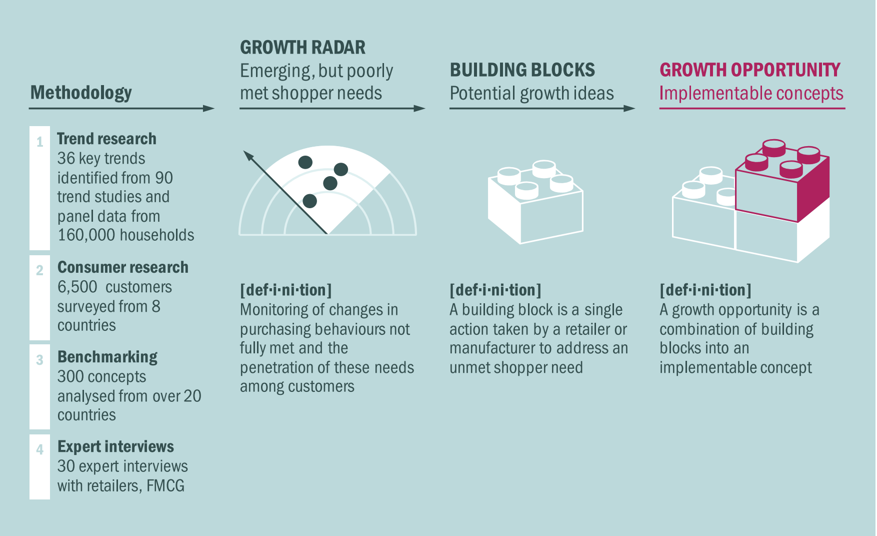
It has never been as tough as it is now. Rising prices and stagnant wages have presented shoppers with persistently declining disposable income.

Nine in ten people say that times are tougher for them now than they were this time last year. Meanwhile retail space continues to grow and the migration to online further dilutes like-for-like sales within the European retail sector.

So in such a cut-throat competitive market, where will growth come from?

The Coca-Cola Retailing Research Council Europe commissioned Roland Berger in association with Europanel to explore new sources of growth in the European retail sector. Our focus was on shopper needs that are emerging but still poorly met by European retailers and manufacturers. We focused primarily on trends within a timeframe of five years.

The result from our comprehensive research is clear:
> Many well-known shopper needs are still poorly met today and new emerging shopper needs are being sporadically addressed by European retailers and manufacturers;
> Combining a number of poorly met shopper needs into an implementable growth opportunity can create an invaluable competitive edge; and
> To build growth, companies need to rely less on traditional market research and more on actual testing by applying three fundamental principles: think big, test small and learn fast.



To the best of our knowledge, this is the largest study conducted on shopping trends in Europe in recent times:

> More than 100 trends were studied and panel data from 160,000 households was analysed.
> 6,500 consumers were interviewed in eight countries (Croatia, France, Germany, Poland, Spain, Sweden, The Netherlands and UK), covering 60 percent of the European population.
> Consumer focus groups in the UK, Poland and Germany.
> More than 300 innovative concepts from 20 countries were reviewed.
> In addition, 30 expert interviews were conducted with retailers and manufacturers, including with executives from companies such as Tesco, Albert Heijn, Carrefour, Edeka, Delhaize, Migros, Kraft Foods, Mars, Procter & Gamble and Nestle.

Key study findings

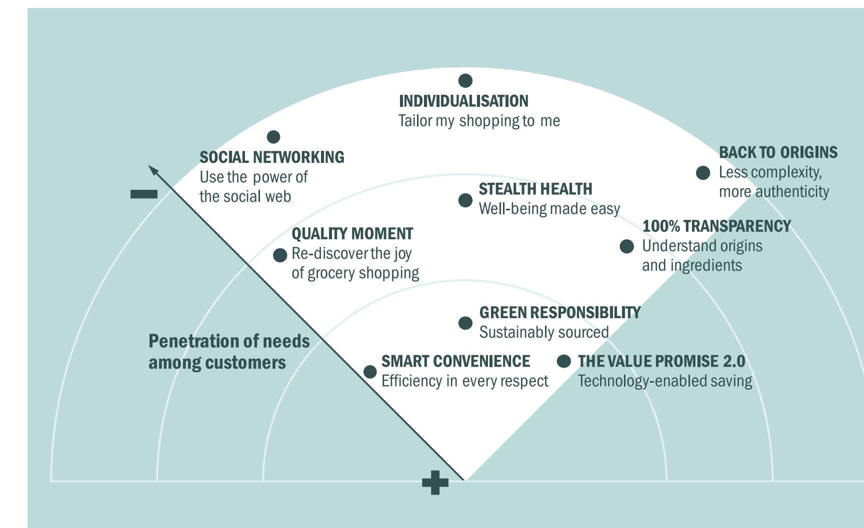
The study identified 50 shopper needs that are currently being poorly met by retailers and manufacturers in Europe

The socio-demographic and socio-economic strata are shifting substantially in Europe, leading to fundamental changes in shopping needs. Customers are not only getting older, they are also more aware of, and concerned about, their environment, as well as their own health and well-being. Furthermore, customers increasingly live in smaller households and want shopping to be convenient and to avoid travelling long distances as much as possible. In addition, they are increasingly interested in buying sustainably sourced products that are tailored to their individualistic shopping needs. These macro-trends are the platforms upon which European companies can build future growth opportunities.

A number of known needs are still poorly met whilst new ones are emerging. Our research identified 50 poorly met or emerging shopper needs due to the long-term social and socio-economic changes. We grouped these 50 needs into nine main needs and mapped these onto our "Growth Radar" (see over).

Close-in needs that are poorly met are Smart Convenience, Green Responsibility and the Value Promise 2.0. This means that customers want more efficiency in the overall shopping process to save time. In addition, they want sustainably produced goods and modern technology to help them save money.

If European retailers and manufacturers work more effectively and innovatively to address these poorly met needs, we believe that they will see significant improvement in overall and individual retail sales.



The study found that combining a number of poorly met needs into an implementable growth opportunity can create an invaluable competitive edge

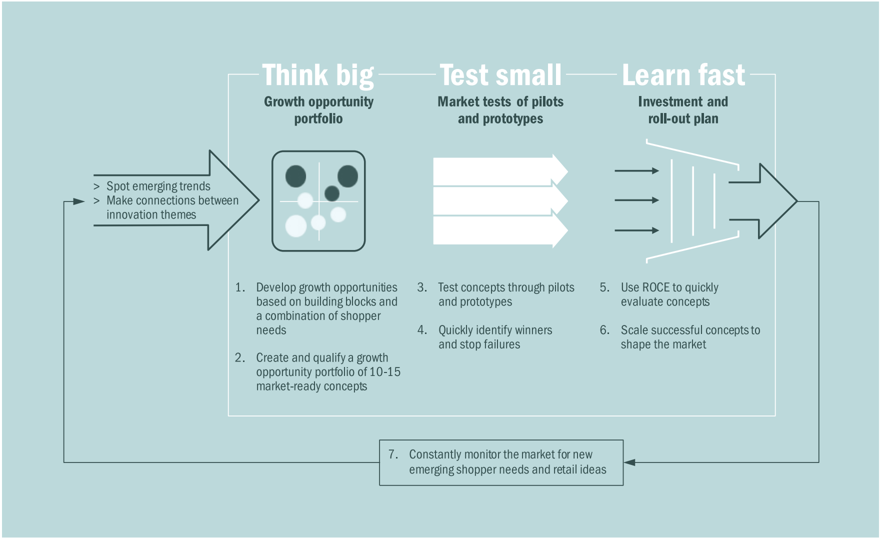
For each of the 50 shopper needs, we identified a number of innovative retail ideas from 'first-to-market' retailers that are moving in to address them. These retail ideas create some interesting building blocks from which to create a compelling and implementable concept.

Take for example alice.com – an online retailer with focus on smart convenience and in particular the need for 'never run out of essentials'. It does this by offering product subscriptions and reminding customers when they might be running low on items such as detergent or baby nappies. Or consider Shutl, a UK startup that promises to bring delivery up to speed by letting shoppers get what they want, when they want it. Shoppers can choose to receive online/in-store purchases within as little as 90 minutes. And the beauty is that Shutl actually does not deliver the product itself but relies on local stock and couriers to do it.

Benchmark examples such as alice.com and Shutl provide a source of inspiration for how companies can exploit poorly met shopper needs and grow in a sluggish retail market.

The study discovered that innovative companies rely less on traditional market research and more on actual testing by applying three fundamental principles: think big, test small, and learn fast.

Through interviews with industry experts and based on the extensive research and benchmarking coming from this study, we have identified three fundamental principles for building growth in European retail: think big, test small, and learn fast. These principles and actions can turn the pursuit of transformational innovation from a game of chance into a repeatable, scalable discipline.



Conclusion

European retailers and manufacturers are today pitted in a fierce battle for a share of declining disposable income. They are facing major disruptions such as new shopper values, changing habits and technologies. In short, developing and selling new products and services have become more complex. In order to survive, companies need to understand the changing shopper needs and proactively alter their business models.

In our study, we found that many well-known shopper needs, such as Smart Convenience or Green Responsibility, are still poorly met and can provide further growth opportunities by finding better solutions to those needs. In addition, new shopper needs are emerging, such as Social Networking and Back to Origins, however, European retailers and manufacturers are only sporadically addressing these needs today.

If retailers and manufacturers want to reignite growth in the European retail sector, they need to move away from lengthy market research projects and increasingly learn from actual testing by adhering to three fundamental principles: think big, test small and learn fast.

The Growth Radar

Identifying the key trends and fifty ways to build growth

To understand the key trends upon which to build new growth opportunities in the European retail sector, we analysed 90 trend studies and panel data from over 160,000 households in Europe. To our knowledge, this is the largest trend meta-study conducted for European retailing. It covered the main economic, social environmental or technological changes that would have a significant impact on shopping needs. The trends were assessed in terms of reporting frequency, market coverage, future potential and category coverage, and summarised in 33 key trends. The key trends were then grouped into eight clusters of mega-trends or 'platforms'.

1 ONLINE

- Increasing internet availability and usage
- Increasing internet buying
- Increasing use of social networks
- Accelerating smartphone penetration

2 CONVENIENCE

- More women working
- Time scarcity and pressure on work life balance
- Increase in flexibility of working life
- Longer distance to work
- Higher acceptance of buying a services at a retailer

3 HEALTH

- Increasing health awareness and self-responsibility
- Increasing number of people with health issues (allergies)
- Increasing number of consumers with unhealthy lifestyles
- Increasing knowledge and spend on health & wellness

4 RESPONSIBILITY

- Increasing environmental awareness
- Increasing social conscience
- Increasing sustainable behavior
- Increasing awareness of collateral damage on species

5 VALUE

- Decreasing disposable income
- Increasing share of Private Label
- Shrinking share of wallet
- Increasing share of planned buying decisions

6 INDIVIDUALITY

- Increasing wish to indulge oneself
- Greater desire for entertainment
- Design is gaining in importance
- Increasing spend on pets
- Increasing nostalgia, yearning for the good old times

7 DEMOGRAPHICS

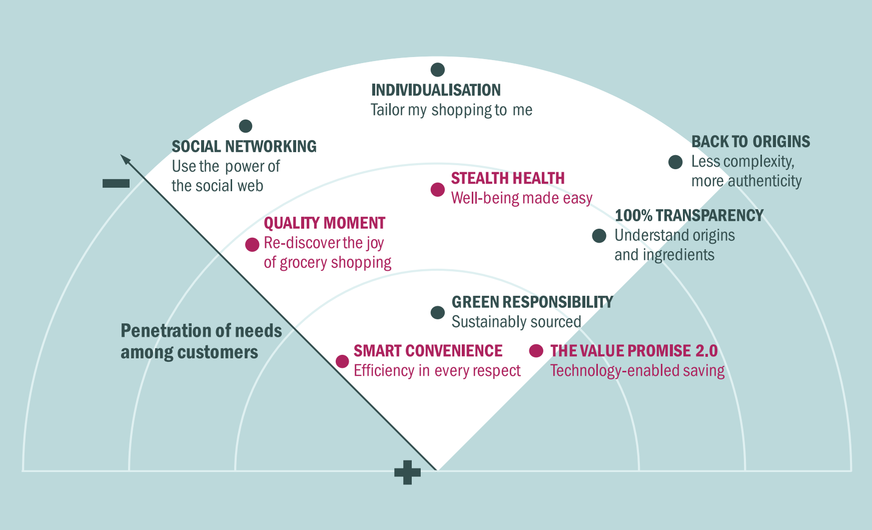
- Decreasing household size, incl. number of children
- Growing population over 60
- Baby boomers having more money to spend
- Rising number of immigrants
- Faster growing small-sized cities w/ high spending power

8 GLOBAL THREAT

- Increasing energy prices
- Increasing commodity prices

The trends are heavily intertwined and can over time amplify or reduce the strength of specific trends. However, they are universal and will likely impact all European markets and categories. The strength and therefore the impact of individual trends on a category or business will vary (for example, growing population over 60 will disproportionally affect nutraceutical companies and pharmacies).

Building upon the changes in the socio-demographic and socio-economic strata in Europe, we identified 50 shopper needs that are predictable today, yet are still being poorly met by European retailers and manufacturers. We grouped these 50 needs into nine main shopper needs and mapped these onto our "Growth Radar", where the needs with the highest penetration among customers are the closest in.



In the following we present the 50 shopper needs and examples of ways that retailers and manufacturers are addressing them. The 10 examples shown cover four of the poorly met main shopper needs: Smart Convenience, The Value Promise 2.0, Quality Moment and Stealth Health. The examples are pulled from our benchmarking of more than 300 examples from 20 countries and serve as retail ideas and building blocks for new growth opportunities. For each shopper need identified there are many different solutions and we have only shown a small selection. Winning and losing solutions will become clearer over the coming years, but tangible solutions are today available to customers to address some of their poorly met needs.

1 SMART CONVENIENCE
Efficiency in every respect

EMERGING, BUT POORLY MET CUSTOMER DESIRES ("I WISH I COULD ... ")	POTENTIAL BUILDING BLOCKS (EXAMPLES)	POTENTIAL TO BE DIFFERENT
1. Never run out of essentials	Subscription model for essentials	★★★
2. Spend less time on grocery shopping	No checkout	★★★
3. Get my shopping delivered when I want	"Room service" delivery speed	★★★
4. Easily find what I want	Product finder app linked to store plan	★★
5. Buy complete menus	Menu planner with shopping list	★★
6. Never forget products I need to buy	Easy-to-use mobile shopping list app	★★
7. Shop more easily as an elderly person	Motorised shopping cart	★★
8. Get more services offered at retailers	"Repair Man" service	★★
9. Shop when and wherever it suits me	mCommerce, longer opening hours	★
10. Spend less time cooking	Products ready-to-heat, ready-to-eat	★

2 GREEN RESPONSIBILITY
Sustainably sourced goods

11. Support local producers/farmers	Rent-a-cow from local farmer	★★★
12. Buy "green" without compromise	Make organic affordable with no price difference to "normal" products	★★
13. Stop wasting products	Reorganise the supply chain to reduce waste, e.g. bread bake-off	★★
14. Be more environmentally friendly	Offer CO_2 neutral shopping basket	★★
15. Protect endangered species/sources	Cooperate with trustworthy NGOs, e.g. WWF, Marine Stewardship etc.	★
16. Use more Fair Trade products	Tell the story of people behind selected "Fair Trade" and local products	★

3 VALUE PROMISE 2.0
Technology-enabled savings

17. Influence retail prices	Decide how much you wish to pay for an item and make an offer online	★★★
18. Be aware of all relevant offers/discounts	Discount alarm app that informs me about relevant discounts	★★★
19. Only get offered what I really need	Mobile menu planning app with menu by price, no. of people, calories	★★★
20. Easily check how much I'm spending	Intelligent shopping basket that shows value of selected products	★★
21. Avoid commodity price increases	"Price freeze" promise on selected commodities	★★
22. Get a real reward for my loyalty	Natural rebate: give products away for free to loyal customers	★★
23. Be sure that I pay the lowest price	Price comparison app to show retail prices in comparison to competitors	★

4 QUALITY MOMENT
Re-discover the joy of shopping

24. Get inspired/surprised	Physical and virtual destination for anyone to pursue their passion	★★★
25. Be less stressed while shopping	"Kids Centre" to allow parent to shop without children	★★
26. Get inspiration for special purchases/gifts	Services packed in DVD boxes, them-oriented assortment	★★
27. Have more options to spoil my pets	Premium pet food, pet products and pet services	★★
28. Eat in the store in a relaxed atmosphere	Recipes of the week available in the in-store restaurant or for take-away	★

★★★ HIGH ★★ MEDIUM ★ LOW

5 STEALTH HEALTH
Well-being made easy

EMERGING, BUT POORLY MET CUSTOMER DESIRES ("I WISH I COULD ... ")	POTENTIAL BUILDING BLOCKS (EXAMPLES)	POTENTIAL TO BE DIFFERENT
29. New ways/places to buy OTC and prescriptive medicine	Pharmacy kiosks and online	★★★
30. Easily find products for my health problems	In-store nutrition centre	★★★
31. Receive advice on diet/health issues	"100 Calories" or "Weight Loss" aisles with products suitable for weight loss	★★
32. Get broader range of "healthy" products	Dedicated "free from" range and aisle	★★
33. Find healthy products that the children will eat	Dedicated children's healthy eating range	★★
34. Buy more products with functional benefits	New product clustering by benefit or by health-related issue	★

6 100% TRANSPARENCY
Understand origins and ingredients

35. Understand the ingredients of products	App to scan barcode to get product information in 'consumer language'	★★★
36. Trust product claims more	Test and proactively delist products with false or misleading claims and communicate it	★★★
37. Trust the 'organic promise'	Aim for 100% organic in selected categories (e.g. eggs or vegetables)	★★
38. Understand the origin of products	Detailed information for each product available through scan of picture code	★

7 SOCIAL NETWORKING
Use the power of the social web

39. Get independent product and service advice	5-star rating of products and services online and offline	★★★
40. Influence what products retailers sell	Website where customers can post and rate product listing/delisting ideas	★★★
41. Get a discount if I buy together with friends	Groupon-like offer for crowd savings	★★
42. Share my feedback with retailers and manufacturers	Actively manage a Facebook profile to interact with customers	★

8 INDIVIDUALISATION
Tailor my shopping to me

43. Get individual product recommendations	Check-in with loyalty card, print-out of individual recommendations	★★★
44. Buy customised package sizes	Customised packaging	★★
46. Find and buy native/ethical products	Broad assortment of ethnical food online, presented in respective languages	★

9 BACK TO ORIGINS
Less complexity; more authenticity

47. Have more personal service	Service counters and experts	★★★
48. Have shopping complexity reduced	Simplified assortment and smaller store formats	★★
49. Shop in stores with nostalgic atmosphere	Retro-design stores	★
50. Find more authentic/simple products	Back-to-basic products	★

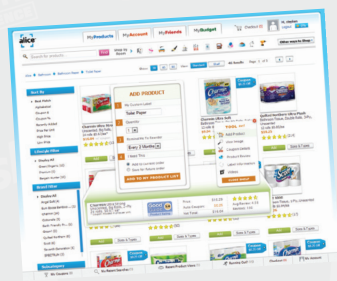
★★★ HIGH ★★ MEDIUM ★ LOW

OVERVIEW OF THE 50 SHOPPER NEEDS

In the following, we will focus on 10 specific shopper needs and illustrative ways of how innovative retailers and manufacturers are addressing these.

Need #1: Never run out of essentials

'Smart Convenience' is a well known, but poorly met shopper need. It is driven by a number of strong trends such as time scarcity, pressure on work life balance and increased use of the internet. Essentially, it says that the most important thing for customers is the ability to buy the things they want in the quickest and most efficient manner possible.



alice.com – a US online retailer – offers a subscription model for grocery essentials. Its mission is to help people manage all household essentials online. It does this by reminding customers when they might be running low on items such as detergent or baby nappies.

Canadian Panty by Post has similar aspirations but is focused on panties. Panties come in hipster, thong and bikini styles and are made with French lace and satin. Customers can sign up for subscriptions lasting two, three, six or 12 months. The company is also about to launch a men's subscription service.

Need #2: Spend less time on grocery shopping

Hoping to raise the level of convenience for time-strapped shoppers in South Korea, Home plus – the Korean branch of Tesco PLC – recently launched a series of virtual stores on subway platforms, enabling customers to make purchases using their smartphones while they wait for a train.

The virtual stores, constructed from large backlit billboards, displayed images of all the items one would expect to find in a standard Home plus shop. QR codes were then placed next to the image of each product, enabling smartphone equipped commuters to automatically add the merchandise to their virtual basket by scanning the code. The total order was then delivered to the commuter's door once they returned home from work.

Adidas is another company that has created a virtual store enabling customers to have the full range of products at easily accessible locations.

AdiVerse is a giant "iPad on a wall" produces a virtual shop containing the latest products and information on the products. It allows the customers to zoom or rotate the shoes using 3D images. It can display up to 8,000 different shoes and shoppers can ask to try one of the shoes for fit and then order it online for home delivery.

Need #3: Get my shopping delivered when I want

Shutl is a UK startup that promises to bring delivery up to speed by letting shoppers get what they want, when they want it. Shoppers can choose to receive online/in-store purchases within as little as 90 minutes ("Shutl Now") or within a 1 hour delivery window of their choice ("Shutl Later"). Shutle actually does not deliver the product itself but relies on local stock and couriers rather than a handful of centralised hubs.

Need #17: Influence retail prices

'The Value Promise' is another well known, but poorly met, shopping need. It is driven by a number of emerging trends such as decreasing disposable income and the falling amount of money a customer can contribute towards groceries and other essential items. In today's new technological environment, shoppers are increasing
looking to use technology to help meet their quests for better bargains.

Makro in the UK, for example, allows customers to decide how much they wish to pay for selected products e.g. food and drink, electrical items and toys. The size of discount is determined by the size of that product's twitter following. Products can have up to 50 percent off if it has over 50 retweets within a 48-hour window after going live. A buzz is created around the products being offered and twitter has replaced the traditional advertising.

Need #18: Be aware of all relevant offers/discounts

Chicago-based Dealradar.com is an example of an emerging online service that allows customers to be aware of all promotions across the web that fit to their needs and profile. It provides a fast and convenient way to navigate around local 'daily deals' websites by indexing and categorising offers from over 80 websites to create a simple, time-saving way to find great local deals. It allows users to save money by analysing and selecting the best deals that fit their needs.

barcoo in Germany gives customers instant access to a brand's social, ethical and environmental profile, as well as a product's nutritional information and price comparison. The shopper simply scans the barcode of a product using a standard smartphone's camera and instantly receives information about the product: price comparison, test reviews, ecological and health-related information or simply the next store that sells a given product. This enables consumers not only to save money, but also guides them through the jungle of sustainability footprints or the plethora of product-information available.

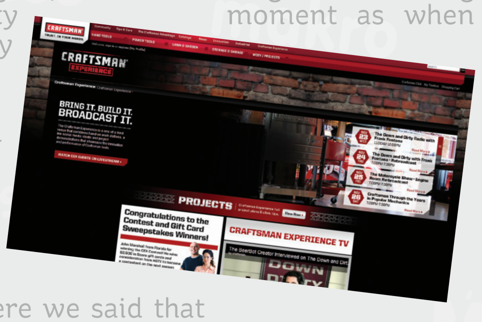
Need #19: Only get offered what I really need

iPhone application, tomers to receive from businesses. in the store, they re- events, menus, sensitive informa- plication, custom- card from and par- register the card to the customers get alised information tive information credit card numbers.

Brouha, allows cus- real-time messages While the customer is ceive details about deals, product lists, and time- tion. In order to use the ap- ers must pick up a Brouha ticipating businesses and their phone. Once this is done, the benefit of receiving person- without having to reveal sensi- like name, address, email, and

Need #24: Get inspired/surprised

Seeking 'quality moments' through the shopping experience has long been a strong customer need. Customers describe a high quality moment as when you are able to feel totally content and completely satisfied with your purchase.



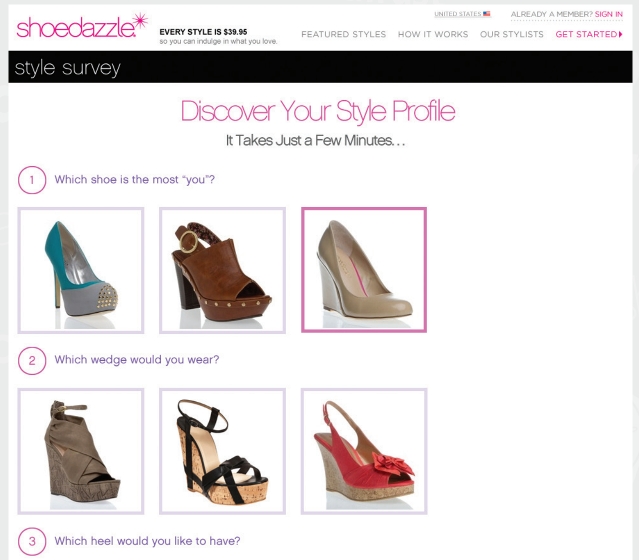
The need for quality moments is driven by a number of emerging trends such as the increasing wish of customers to be able to indulge oneself; the greater desire for entertainment; and baby boomers having more disposable income [isn't this contradictory though to the opening section where we said that customers overall have less disposable income?. The section could do with more detailed explanation].

In downtown Chicago, there is a new ultimate Do-It-Yourself playground, for carpenters, mechanics, garden enthusiasts and DIYers of all skill levels. Craftsman Experience (part of Sears) has created a new venue that combines hands-on project stations, live demos and clinics. The store was built with an internet audience in mind, and streams special events live over the Web and serve as the studio for an internet-based radio station.

In Berlin, Kochhaus has created a staged experience around cooking. It is a shop come cooking school specialised in selling complete meal sets as well as offering cooking lessons.

Kockhaus sells complete menus for 2-4 guests, with prepared high quality ingredients. It then conducts cooking lessons to teach customers how they can cook what they've just bought.

Need #26: Get inspired for special purchases/gifts



Users of Los Angeles-based ShoeDazzle can subscribe to a handpicked series of stylish shoes. Each month, ShoeDazzle's personal stylists send the user an email with five new shoe choices, handpicked to suit her personality and fashion preferences. The user simply logs into the site to select the pair she wants, and it gets shipped out for free. Monthly membership covers the shoes and shipping. Members can skip a month's selections, in which case they won't be charged; they can also return or exchange shoes they don't like.

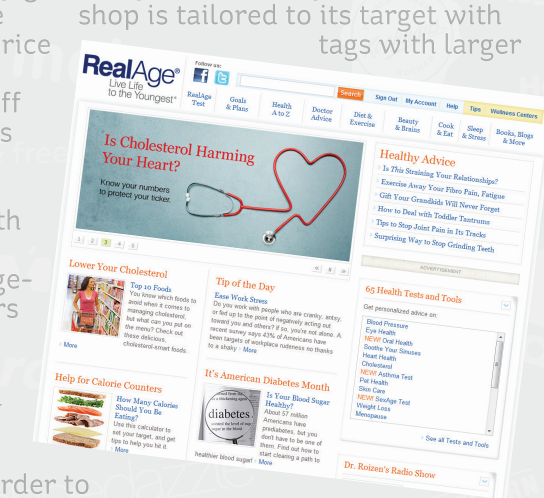
Need #29: New ways/places to buy OTC and prescription medicine

As the population ages, customers are increasingly striving to maintain high standards of health and well-being and with the rising number of people with health issues (such as, diabetes, high cholesterol, obesity), customers are spending more than ever before on functional food and health products. However, at the same time, shoppers are also demanding easier access to well-being products and better advice.

Pharmacy consultation and medicine distribution should be available at any time of the day, in locations to suit the shopping. Canadian company, PharmaTrust Corp. has developed a way to improve patients' access to prescribed medication in remote, underserved areas and after-hours situations. The PharmaTrust MedCentre utilizes technology to provide face-to-face consultation via a video-link with a registered pharmacist and immediate access to prescribed medicines. The solution creates the potential for 24-hour and 7 day-a-week access to pharmacists and prescribed medication. It also helps integrate pharmacists into primary healthcare

Need #30: Easily find products for my health problem

Lyon-based, HOJO offers a holistic variety of about 400 lifestyle products dedicated to keeping senior citizens happy, healthy and independent for as long as possible. HOJO groups its products into categories including wellness and health, daily living, leisure and comfort, communication and security, and they go far beyond disability aids to include aromatherapy treatments. The shop is tailored to its target with such features as wider aisles, price tags with larger lettering, and a staff trained in senior issues. It also offers one-off events for seniors on such topics as massage, cooking and computers.



RealAge is a US-based consumer-health media company that provides personalised health information and health management tools to consumers. It allows visitors to take an online health assessment to determine their 'real age'. Based on the extensive assessment, users are provided with tailored information containing the latest health tips to help them address some of their identified health issues in order to lead a longer and happier life.

Growth Building Blocks

Building growth opportunities from unmet shopper needs

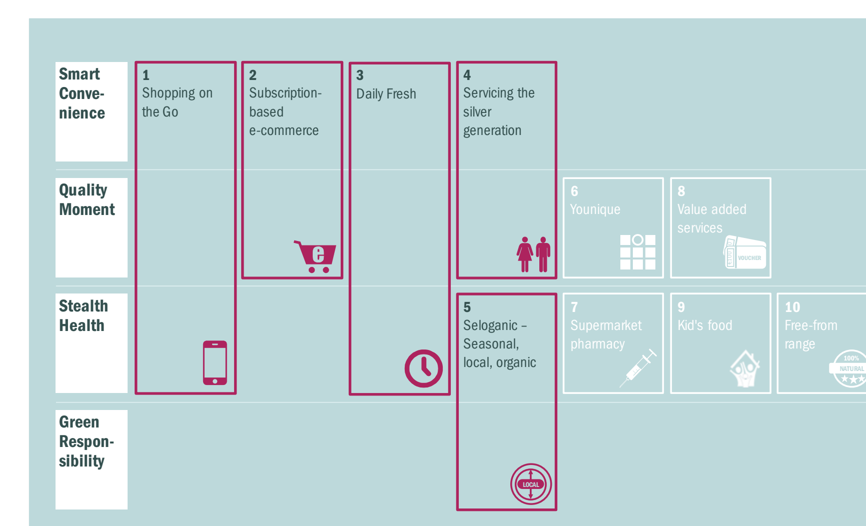
Should a retailer and manufacturer focus on serving all the poorly met needs, a cluster of needs or a single need? The answer depends on the capabilities and strategy of each company. There is no 'one-size-fit-'all' solution and each company will have to build its own growth opportunities.

However, the study found that combining a number of poorly met shopper needs into an implementable growth opportunity can create an invaluable competitive edge.

To understand what types of growth concepts customers would be mostly interested in, we tested a number of concept ideas as part of our extensive survey with 6,500 people across eight European countries.

Interestingly, we found no significant difference between customers' likelihood to use a concept whether they were more discount/value-oriented or more shopping enjoyment-oriented. Another key finding from the customer survey was that shoppers in different markets value different things. We did not identify a single concept that was highly valued across all markets, which confirms the notion that retail is local. Regarding socio-demographic characteristics, the age group of the customers was the only significant driver in terms of different perception of the concept ideas.

10 promising concepts emerged from our research to cover unmet shopper needs. In the following, we focus on five of the concepts that received the highest universal ratings from customers across the eight countries.



Concept description

On the go shopping and payment using interactive mobile tools to provide information on products, nutrition, availability and placement.

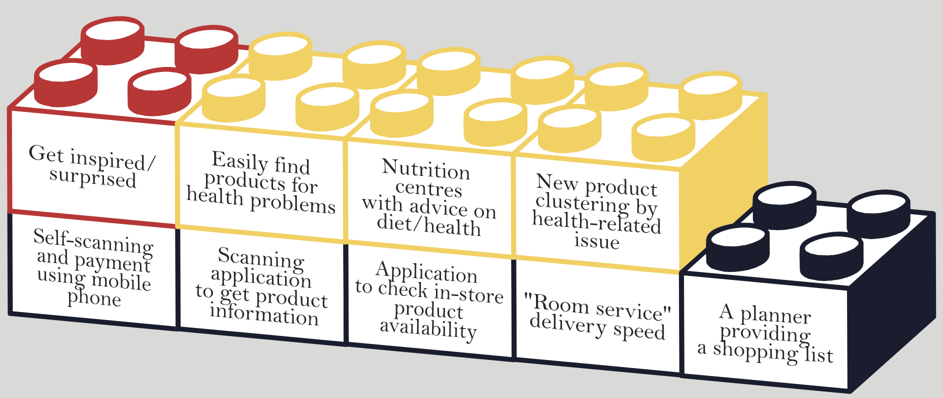
Key trends the concept is addressing

ONLINE
- Accelerating smartphone penetration
- Increasing internet availability and usage
- Increasing internet buying

CONVENIENCE
- Time scarcity and pressure on work life balance
- More women working
- Longer distance to work

INDIVIDUALITY
- Greater desire for entertainment

Shopper need building blocks



Smart Convenience · *Quality Moment* · *Stealth Health*

Example of emerging concepts

TESCO HOME PLUS

ADIDAS

KRAFT MEAL PLANNER

Concept description

Subscription based home delivery service with automated ordering for a set range of products and times.

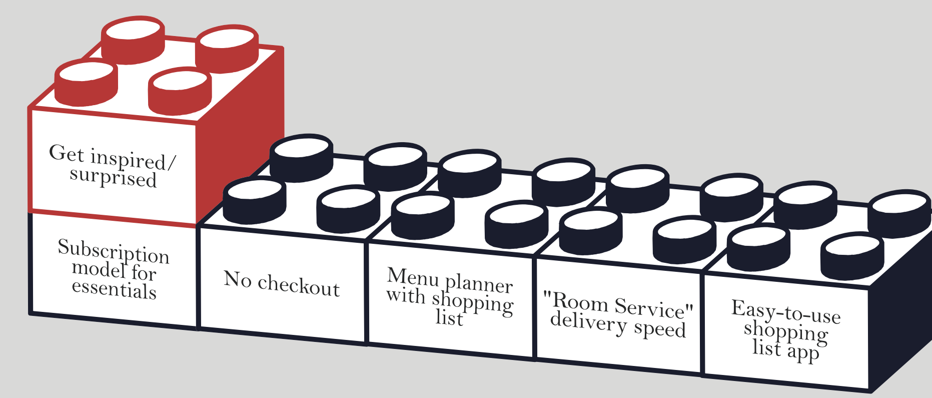
Key trends the concept is addressing

ONLINE
- Increasing internet availability and usage
- Increasing internet buying

VALUE PROMISE
- Increasing share of planned buying decisions

CONVENIENCE
- Time scarcity and pressure on work life balance
- More women working

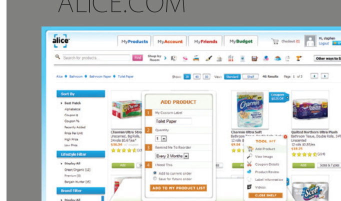
Shopper need building blocks



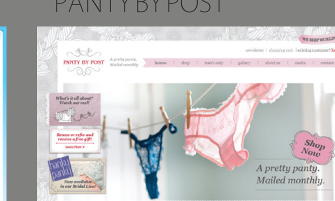
Smart Convenience · *Quality Moment*

Example of emerging concepts

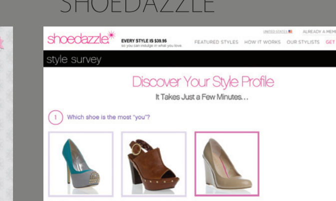
ALICE.COM



PANTY BY POST



SHOEDAZZLE



Concept description

Mini-convenience store in high footfall area with round the clock access to hot and cold ready made meals.

Key trends the concept is addressing

CONVENIENCE

Time scarcity and pressure on work life balance

More women working

Longer distance to work

HEALTH

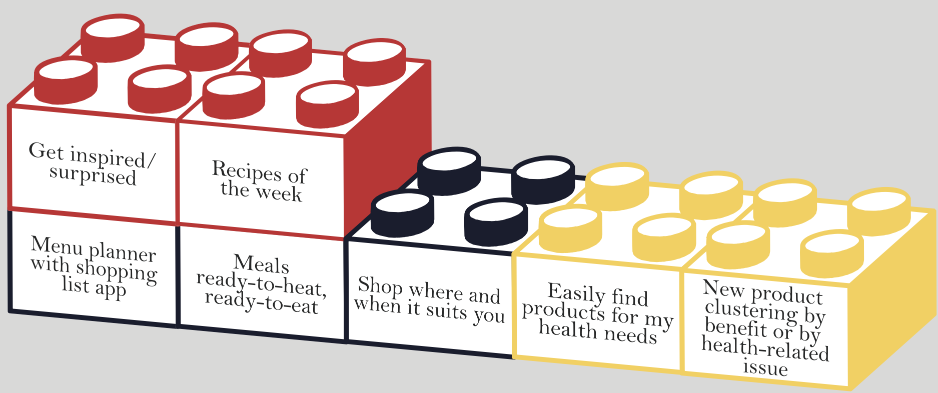
Increasing health awareness and self-responsibility

Increasing knowledge and spend on health and wellness

INDIVIDUALITY

Increasing wish to indulge oneself

Shopper need building blocks



Smart Convenience · *Quality Moment* · *Stealth Health*

Example of emerging concepts

KOCHHAUS

BILLA BOX

Concept description

Making shopping easier for the 'silver generation', including in-store guidance, improved signage and smaller package sizes.

Key trends the concept is addressing

HEALTH

Increasing health awareness and self-responsibility

Increasing knowledge and spend on health and wellness

DEMOGRAPHICS

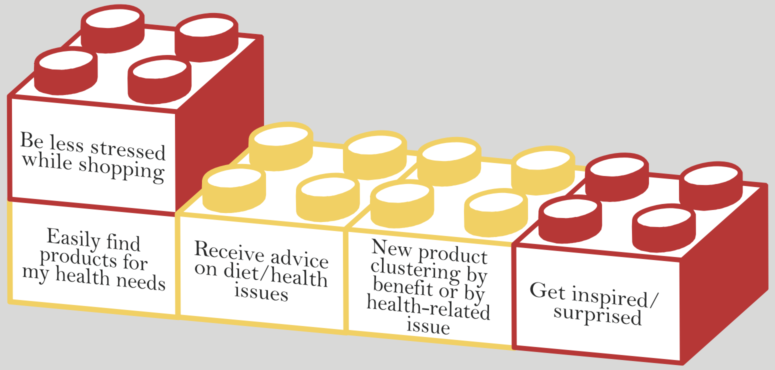
Baby boomers having more money to spend

Growing population over 65 years

CONVENIENCE

Higher acceptance of buying services at retailers

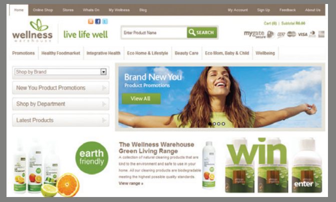
Shopper need building blocks



Quality Moment · *Stealth Health*

Example of emerging concepts

WELLNESS WAREHOUSE



REALAGE

Concept description

Wide selection of seasonal, locally grown and organic products sourced from regional farmers and producers.

Key trends the concept is addressing

RESPONSIBILITY

Increasing environmental awareness

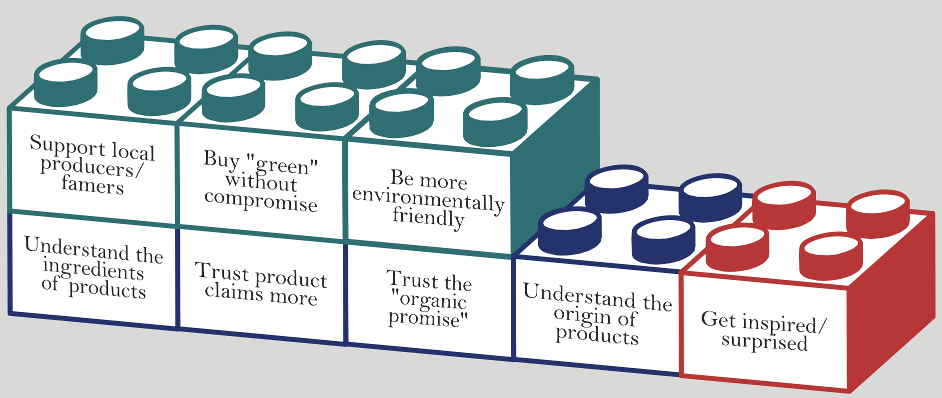
Increasing sustainable behaviour

HEALTH

Increasing health awareness and self-responsibility

Increasing knowledge and spend on health and wellness

Shopper need building blocks



100% transparency — *Quality Moment* — *Green responsibility*

Example of emerging concepts

UNION MARKET

FRESH VENDING

H&M CONSCIOUS COLLECTION

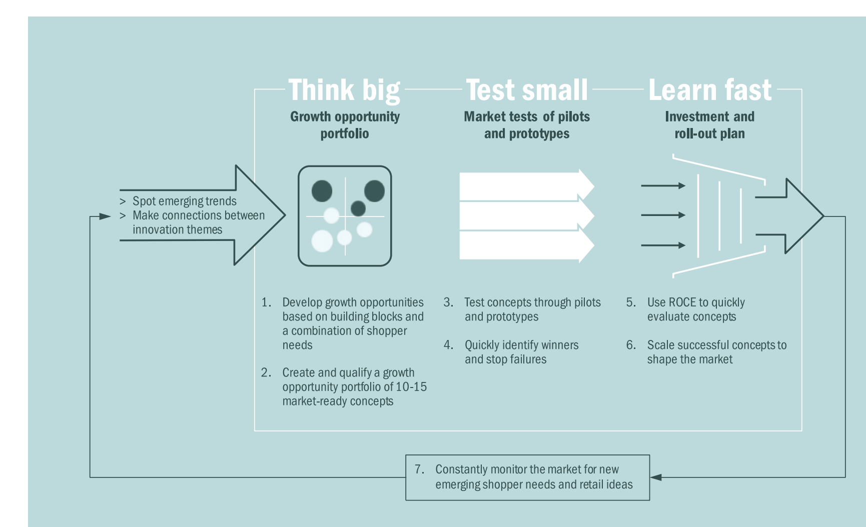
Tools for Building Growth

Applying three fundamental principles to growth – Think Big, Test Small and Learn Fast

The worldwide benchmarking involved in this study identified a wealth of innovative solutions for how retailers and manufacturers address the key unmet shopper needs. While the benchmarking examples are a good source of inspiration for business opportunities, retailers and manufacturers need to develop the right solutions for their businesses, taking into account their current market position and the organisation's capabilities.

Everything is moving faster and the window of opportunity to capitalise on an advantage is shrinking. However, because companies need to innovate more, failure will become more common and needs to be well managed at all levels of the organisation. Leadership is essential for innovation and growth. If this is not done correctly, the organisation simply churns in trying to find its way.

Through interviews with industry experts and based on the extensive research and benchmarking of this study, we defined three fundamental principles that retailers and manufacturers should adhere to in order to find new sources of growth.



Principle #1: Think Big

Many companies have blind spots with regards to the full potential of ideas. The organisation's past capabilities can trap it as fear of cannibalisation and internal power struggles prevent innovations from gaining support. Clayton Christensen famously introduced the concept of 'disruptive' innovations some years ago. So companies need to think big and be prepared to cannibalise existing business in order to access new sources of growth.

1. Define growth opportunities based on building blocks and a combination of shopper needs

When defining growth opportunities based on poorly met shopper needs, companies should consider four options:

	OPTION I Build around a core building block	OPTION II Build around a need cluster	OPTION III Find stand-alone building blocks	OPTION IV Combine suitable building blocks
How?	> Chose a building block that is strong enough to be the main proposition of a business opportunity > Add building blocks from other need clusters to develop a coherent business opportunity	> Select a need cluster with high potential for the company > Combine the building blocks from this need cluster to build a business opportunity with a consistent and strong message	> Find a strong building block that could be implemented as a business opportunity	> Combine building blocks that are most suitable to match each other > Delete building blocks that might be perceived as inconsistent > Refine opportunity accordingly
Example	Homeplus 'Shopping Wall'	RealAge	Shutl "room service" delivery	Craftsman Experience Center

The option that is right depends on the companies current market position, organisation's capabilities and appetite for risk.

To better understand specific customer needs, companies should use customer and loyalty data to segment shoppers and needs according to their actual purchasing behaviour and shopping occasions.

2. Develop and qualify a growth opportunity portfolio of 10-15 market-ready concepts

It is all too easy for growth to flounder because an organisation lacks an effective process for creating a solid growth portfolio. Such a portfolio should have a mix of initiatives that the company funds to support its core business, create opportunities in adjacent spaces and invest in options for the future.

To develop a growth portfolio, companies need to generate, define, and analyse the attractiveness, strategic value and feasibility of possible concepts in order to put together a robust portfolio of discrete and distinct commercial propositions, each represented as a fully-formed market-ready concept.

Principle #2: Test Small

In markets with high uncertainty and changing shopper priorities and preferences, it is often difficult to have enough information to develop a conventional business plan. The thrust of planning must instead be on learning, while at the same time reducing development costs and risks.

3. Test through pilots and prototypes

Companies should fully road test the portfolio of distinct commercial propositions. The data that goes into this will be the key driver behind any necessary refinement of the individual propositions in preparation for full market potential assessment and/or commercialisation. Retailers and manufacturers should use different and novel ways of testing the concepts. For example, a year before Tesco announced its GBP 250 million assault on the US grocery market, it rented an airline hanger and constructed a dummy Tesco store for customers to test shop and give feedback.

4. Quickly identify winners and stop failures

Most companies have poor processes for constructively shutting down projects and capturing whatever value and learning might have been generated within these. To identify winners and failures, companies need to look at behavioural data to understand real changes in shopper behaviour. Quickly identify concepts that are not working and modify them, or remove them completely. Subject the failures to rigorous analysis in order to understand what to do differently next time. For example, Albert Heijn tested a new range called 'Kies & Kook' (Choose & Cook), which targeted customers with different preferences concerning their nutrition but the same preference concerning preparation time and method. It was targeted at home cooking and was launched in 400 stores. However, based on extensive shopper behaviour analysis, Albert Heijn quickly realised that the range was not meeting its targets and made a quick decision to discontinue the range and use the space for another new innovation opportunity.

Principle #3: Learn Fast

In most markets, companies do not have the luxury of competing with a great deal of resources. They have far more promising projects that they could ever fund and develop themselves. It is therefore important that companies learn fast which project to back and commit sufficient resource to allow the strong concepts to flourish.

5. Use Return on Capital Employed (ROCE) to rapidly evaluate investments

When companies evaluate what concepts to support, they need not only consider the total sales and profit growth potential but, equally important, the ROCE. The speed at which a concept can return the invested capital required to launch it, the faster the company can grow its overall profits. However, net present value calculations, which project cash flows and investments into the future and discount them back, are basically meaningless when rapidly changing environments can destabilise the conditions under which such projections are made. Instead, companies that are highly successful at picking and supporting winning concepts make small investments today to create the right, but not the obligation, to make more investments in the future. This approach allows companies to limit risk and learn as they go.

6. Scale successful concepts to shape the market

The concepts that survived the gauntlet of customer, operational and commercial interrogation progress to the roll-out phase. This requires the commitment from executives at a higher level in the organisation. It will often involve broader implementation and delivery challenges. It is critical to have a business system that allows for fast and efficient roll-out of new concepts. In addition, companies should plan how the existing offering need to change based on emerging shopper needs and new growth initiatives. For example, if you plan to use new store formats, how will this impact the existing store footprint and format strategy.

7. Constantly monitor the market for new emerging solutions

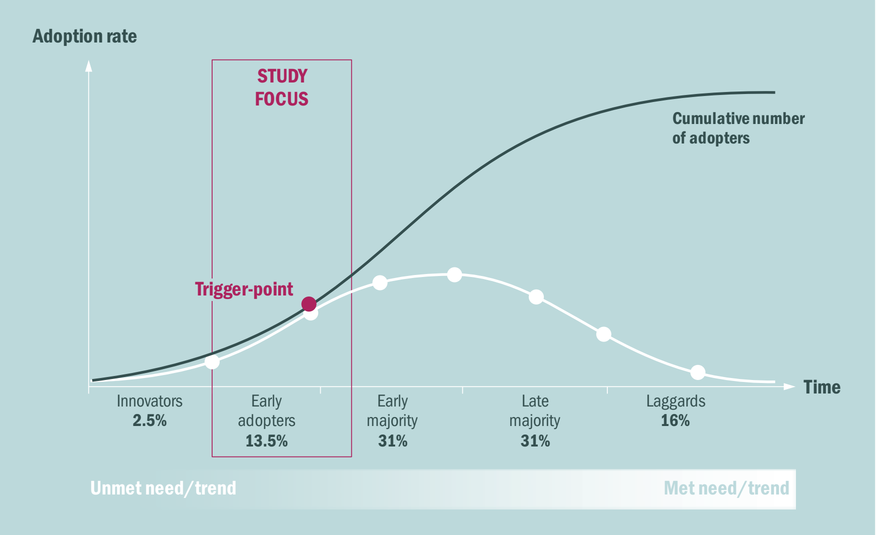
Sir Terry Leahy, former Tesco CEO, once observed that the average dwell-time of an innovation in grocery retailing is "around six weeks". Therefore, companies need to constantly monitor what new solutions are emerging around poorly met or new and emerging needs is required.

Appendix
Study objectives and methodology

The study set out to help retailers and manufacturers identify profitable growth opportunities based on poorly met shopper needs. The two main objectives of the study were:

> To define emerging shopper needs that are predictable today, yet poorly met; and
> To provide guidance on how retailers and manufacturers can find profitable growth opportunities from these needs.

The study focused on identifying shopper needs close to maximise mid-term sales potential and when they were at a crucial tipping point. The rate of adoption dictates the time for a trend to spread. Therefore, we focused primarily on trends three to five years before the potential trigger point might be reached and when sales would grow rapidly.



The study involved three main work streams designed to generate the depth and breath of insight required to identify new growth opportunities in European retail.

1. Trend research

We analysed 90 trend studies and panel data from over 160,000 households in Europe to identify more than 120 individual trends. These were assessed in terms of reporting frequency, market coverage, future potential and category coverage, and summarised in 33 key trends. The key trends were then grouped into eight clusters of 'mega trends'.

To identify innovative retail ideas and how to successfully bring innovation to market, we conducted structured interviews with 30 experts in retail and manufacturing. They included executives from companies such as Tesco, Albert Heijn, Carrefour, Edeka, Delhaize, Migros, Kraft Foods, Mars, Procter & Gamble and Nestlé.

2. Consumer research on emerging shopper needs

Firstly, we conducted primary research with more than 6,500 consumers in eight countries (UK, Sweden, Poland, Croatia, Germany, The Netherlands, France and Spain). These markets cover 60 percent of the European population. The research focused on understanding items most enjoyed shopping for and the main shopping needs. In addition, the consumers were asked a battery of 'I wish I could ...' statements to understand poorly met or emerging needs.

Secondly, we followed the market research with consumer focus groups in the UK, Poland and Germany. These groups evaluated the shopping concepts resulted from the market survey and helped provide the context for such concepts.

3. Innovation benchmarking

Finally, we conducted a worldwide review of innovative solutions that were meeting the poorly met or emerging needs. We analysed over 300 concepts from 20 countries and identified new building blocks and stimulating innovative ideas.

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