PRIVATE BRAND
INTELLIGENCE REPORT 2018

The STATE of the INDUSTRY
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When we think of the history of Private Brand over the last few decades, for a long time it was largely associated with copy-cat generics with good margins. Then over the years, the sector gained a reputation as a national brand equivalent. Today, Private Brands truly set the pace for the rest of the industry. They have gone from being just a financial tactic to the most coveted play in town. If you don’t have a solid Private Brand strategy today, you’re in trouble. You’re dead in the water.

As consumers look for more solutions, instead of individual products or brands, Private Brands are becoming more relevant than ever. You could say they are going through a renaissance period of sorts. It’s undeniable that retailers with distinctive, differentiated Private Brands will survive and thrive, and those with just national brand equivalents will struggle and fail.

It’s always a challenge to estimate the true size of the market, but when we look across the industry, we put the size at a minimum of $166 billion in the U.S. Over the past year, Private Brand sales have outpaced national brands by about 8 times. That’s +4 percent compared to less than +0.5 percent.

Today, we see that smaller manufacturers are innovating more than before so retailers are jumping aboard the non-national brand gravy train as they finally realize that the strategic power of Private Brands goes beyond low prices alone. A retailer that truly understands its shopper geography can create scale with hyper-personalized brand solutions that deliver in ways that traditional CPG brands just can’t replicate. Add that to the fact that up to 53 percent of shoppers say that they would specifically shop at a store because of its Private Brands, and that should be all the reason retailers need to dramatically expand Private Brands on shelves. But why stop there?

Discount stores are outpacing their brick and mortar counterparts, with an estimated 5.8 percent CAGR for 2017-2022. Even outside of grocery, off-price retailers like TJ Maxx, Burlington and Ross are eating the department stores’ lunch, with projected incremental sales growth of $18-19 billion by 2021. While the race to move online is accelerating at record speed, the fact is, physical stores are not obsolete, but most are still in need of a major facelift.

Meanwhile, traditional grocers are reacting. Supermarket leaders are becoming restauranteurs as the consumer wants prepared foods. Value retailers are offering Private Brands in unique categories that include beverages and apparel. On top of all this, consumer needs are as fragmented as can be – 66 percent are eating a wider variety of ethnic cuisines, 20 percent of the aging population will be over 55 by 2020 and households are getting smaller by the day. If you haven’t realized by now, we need to throw out the archaic “one-size-fits-all” model for good.

With Private Brands, there’s the notion that you’re getting a deal or at least not paying a nonsensical premium for the name on the packaging and that’s why these brands are growing so much. It’s just natural selection at work.

Nowadays, shoppers browse the internet to compare products and to see whether they’re being duped or not, and honestly, they’re tired of having their guard up. With Private Brands, there’s the notion that you’re getting a deal or at least not paying a nonsensical premium for the name on the packaging and that’s why these brands are growing so much. It’s just natural selection at work.

As we embark on 2018, the enclosed edition of the Daymon Private Brand Intelligence Report is the answer to refining, improving and delivering an unbeatable Private Brand Program.

Private Brands are the key to success. I encourage you to take a look at our report and drop me a note at JimH@daymon.com. I’d love to hear what you think.
**Benchmark Your Business**

**BY THE NUMBERS ...**

$166B in PRIVATE BRAND SALES

+$6.5B in revenue FOR 2017

32% Best-In-Class PRIVATE BRAND SHARE AVERAGE versus 17% INDUSTRY AVERAGE

PRIVATE BRAND has contributed an estimated $50B in MARGIN 

This has grown $2B SINCE 2016

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**Score CARD**

**HERE’S A CHART** of the key stats. We’ve offered an industry average as well as a best-in-class set of numbers. We’ve left a column blank for you to fill in your own numbers. If you’re not keeping up with the industry or best-in-class, it might be time to call Daymon.

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<th>INDUSTRY AVERAGE</th>
<th>BEST-IN-CLASS</th>
<th>HOW DO YOU COMPARE?</th>
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<tr>
<td>AVG. NUMBER OF PB ITEMS</td>
<td>3,094</td>
<td>4,817</td>
<td></td>
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<tr>
<td>PB SHARE OF ITEMS ON SHELF</td>
<td>15%</td>
<td>16%</td>
<td></td>
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<tr>
<td>PB SHARE OF AD SPACE</td>
<td>14%</td>
<td>25%</td>
<td></td>
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<tr>
<td>PB SHARE OF TOTAL DOLLAR SALES</td>
<td>17%</td>
<td>32%</td>
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**SOURCE:** Nielsen 52 wks ending 12/30/2017; Ecommerce Supermarket Scorecard Report, Bricks Meets Clicks, Aug 2017; Digitally Engaged Food Shopper, FMI/Nielsen, Jan 2017; ECRM Marketgate Dec 2017; Daymon estimates
Place Your Bets

EXECUTIVE SUMMARY

Retail is being redefined... every day. Your competition is upping their game. Consumers want more. And that means you must get to know the customer in the checkout line.

The new shopper has spoken and their focus has shifted from National to Private Brand because, the reality is, everyone is a Value shopper. Value retailers shifted their strategy many years ago to build and diversify their Private Brand selection and now it’s paying dividends. Think Costco and BJ’s Wholesale Club. Now Aldi and Lidl are building on their European Private Brand model as they stretch across the United States.

Knowledge is power in this value-driven environment. The Daymon Private Brand Intelligence Report provides you with insights from two proprietary studies: the 2018 Daymon Private Brand Shoppers Report and the 2017 From Shopper To Advocate Global Research Study, as well as category research from Daymon analysts, commentary from experts under the Daymon umbrella and best-in-class practices to grow your business.

Action Steps

Private Brand is one of your most powerful levers to survive in this value-driven environment. As you read through this report, we at Daymon urge you to consider the following:

1. CONNECT Private Brand more deeply to local and cultural roots by engaging in and outside of the store to promote interaction across the shopping journey from pre- to post-shop.

2. FIND ways for consumers to play a more active role in creating their own solutions with Private Brand.

3. INSTITUTE wellness initiatives that create linkages between departments – food, HBC and pharmacy – while incorporating Private Brand products and services as key pillars.

4. DETERMINE how Private Brand can link to the on-demand consumer through new technology-enabled services that complement and/or supplement the grocery shopping trip.

5. ENSURE that your unique service offerings are as important to your Private Brand portfolio as your products.

6. MODERNIZE loyalty programs with new incentives and engagement vehicles to drive Private Brand purchase. Use social media as a store and product advocate.

7. EXPAND programs to departments that have been traditionally under-developed in Private Brand, such as fresh, general merchandise, alcoholic beverages and apparel.

8. RE-THINK the Four P’s of your Private Brand playbook – develop guidelines that will optimize the performance of the program across the store.
Consumers are telling us...

PRIVATE BRAND MUST BE ONE OF YOUR BIGGEST BETS

Private Brand is upping its game in recent years. With a variety of internal and external forces in play, one of the biggest challenges for all retailers is to decide where to shift focus and place your bets.

74% say Private Brand is now a BETTER VALUE for the money.

61% say QUALITY HAS IMPROVED.

59% say it now offers greater VARIETY.

53% say they shop at a store SPECIFICALLY for its Private Brand.

A strong Private Brand offering creates loyalty.
Consumers are becoming less brand loyal. Compared to National Brand...

85% trust **Private Brand** at least as much

84% say **Private Brand** quality is at least as good

**SURVEY Says**

81% buy Private Brands on **EVERY** or **ALMOST EVERY** shopping trip

**SURVEY Says**

61% purchase more Private Brands than **TWO YEARS AGO**
IT’S NOT JUST ABOUT VALUE. Private Brand uniqueness directly correlates with Store Loyalty. As Jim Holbrook, CEO of Daymon puts it, “Shoppers today are looking for ways to be disloyal. They aren’t interested in seeing the same thing; they are demanding better service, selection and experience.” So, what does that mean for retailers, when up to 98 percent of their national brand assortment is also carried by the competitor down the street?

Daymon research, in partnership with Nielsen data, found that the higher degree of uniqueness that a retailer has in their Private Brand assortment, the more loyal their shoppers are. Not only do Private Brands build on a retailer’s value proposition with high quality items at an affordable price, but they can offer authentic solutions to make consumers’ lives easier. Private Brand products that cater to consumers’ needs are well-positioned to drive sales and loyalty.

This is especially evident in the expanding value channel where retailers are capitalizing on the new face of the value consumer. Using Aldi as an example, Private Brand accounts for about 90 percent of its sales in the U.S. While they currently only capture 4 percent of total U.S. food market share, sales grew 9 percent this past year. As a sign of this growing threat, 65 percent of retailers saw at least a 10 percent increase in dollars lost to the value channel over the past year.

DON’T LET NATIONAL BRAND UNDERCUT PRIVATE BRAND. You’re leaving money on the table if you do. Pricing and the perceived value proposition of Private Brand play a vital role in today’s industry, but Private Brand is not always fully integrated into a retailer’s pricing strategy. Daymon research shows that while 83 percent of retailers are running price checks on their key value items – those items that are consistently on promotion and purchased by price sensitive shoppers on a frequent basis – only 60 percent of those checks include Private Brand items. In most cases, we found that even when a retailer is price checking Private Brands, it isn’t being done consistently.

The lack of Private Brand price checking has a real impact. Based on our Daymon analyses, Private Brand key value items are being undercut by national brand promotions an average of 12 weeks a year. If Private Brands aren’t price competing with national brands, why even have them on the shelf? An effective solution is to run Private Brand promotions at the same time as the national brand to reduce being undercut. In fact, the data shows that you can generate a better lift running two promotions at the same time versus the combined lift you get from running two independent promotions.

However, we found that this technique is rarely used – as only 17 percent of retailers are employing a price protection program. The other 83 percent? Well, they lost $147 million in Private Brand sales last year due to undercuts.
Promotion

PROMOTION STRATEGIES CAN NO LONGER BE ONE-SIZE-FITS-ALL. Tailored, personalized marketing is key to future success. Daymon research shows that there is zero correlation between an increase in conventional store promotions and retailer loyalty. Today’s shopper is complex and driven by factors that go beyond price. Leading retailers are finding that everyday low pricing strategies with targeted promotional strategies are more efficient and provide a stable pricing model that leads to better budget management and forecasting, and more effective staffing models. Traditional High/Low pricing strategies have trained shoppers to only buy on deal and can ultimately have a negative impact on sales, basket size, loyalty and profit.

A five-year analysis of U.S. retailers highlights the shifting trend in pricing strategies, from traditional High/Low to personalization. In fact, from a pure efficiency point of view, both Temporary Price Reductions (TPR) and Feature or Display promotions have declined, all while their share of overall dollar sales have increased. Now let’s add this to the fact that consumers continue to reduce their in-store coupon usage (-12 percent) while usage of exclusive offers and targeted mobile promotions experience significant growth (+33 percent and +20 percent, respectively).

Let’s face the facts: 61 percent of consumers want to see more promotions and coupons customized to THEIR shopping habits. How are you responding to their request? We know the best performing retailers are utilizing Private Brands as a critical component to their solution. Are you?

Placement

WINNING RETAILERS MANDATE FULL DISTRIBUTION OF CORE PRIVATE BRAND ITEMS. Daymon research recently tackled the nuances of managing a productive Private Brand program that meets the needs of your most valuable shoppers.

What was different about successful retailers in this group? They had a diverse brand portfolio – with more Private Brand Stock Keeping Units (SKUs) across all quality levels. In fact, most had twice the number of value-added items and nearly twice the number of lifestyle-targeted products (e.g., organic). Their balanced portfolio was comprised of 40 percent value-oriented SKUs.

However, it’s not just about having more items. Successful retailers also mandate full distribution of their items. Nowhere was the difference larger amongst successful and non-successful retailers than in their natural and organic portfolios. So the best performing retailers are offering Private Brand as a solution to important lifestyles AND they are making sure the assortment is available consistently across their stores.

IT WAS A PIVOTAL YEAR IN THE U.S. FOR PRIVATE BRAND IN 2017, moving from imitation to differentiation. Shoppers are choosing retailers that deliver on a new set of expectations. Are your Private Brands ready for the challenge?

Daymon conducted a proprietary Private Brand analysis across 50 retailers in the United States. These results, coupled with the collective intellectual capital of our associates worldwide, have identified four key lessons to evaluate the strength of your Private Brand program:
With most consumers now shopping at least nine channels every month, in-store engagement and experience is what will keep shoppers in the store.

Daymon’s 2017 Shopper To Advocate Global Study found that 59 percent of U.S. consumers seek out engagement when they shop. Six in 10 shoppers crave experiences to stimulate the senses. That is, these shoppers want interaction in the retail experience, want to feel included and want to provide opinions and ideas to retailers and brands to make their mark.

And the more engaged the shopper, the more valuable they become. The study also found that those who are the most engaged are more likely to be involved in high value activities, such as making impulse purchases and buying gifts, specialty products and pay-for services in the store. Impulse shopping is a feel-good buzz that can be driven not only by shopper loyalty, but also by valued promotions.

These shoppers also understand that Private Brand can be a point of difference for a retailer. The most engaged shoppers agreed that Private Brand delivers on attractive packaging, unique flavors, local needs and high quality. High-value engaged shoppers are giving Private Brands permission to differentiate. Retailers don’t have to feel constrained by a fast-follower or me-too mentality. In fact, retailers with the highest Private Brand shares around the world have embraced the fact that their own brands can be uniquely positioned to offer the originality and customization that keeps shoppers coming back for more.
And let’s look across “the pond” by comparing North America to the leading Western European markets where the Private Brand share of sales is more developed. The Daymon study found that the differentiating features of Private Brand are more recognized by engaged shoppers in the U.K. and Germany compared to the U.S. and Canada. While value for money scored high on both sides of the Atlantic, the European respondents gave Private Brand higher scores on 10 value-added metrics. This difference in perception is, in part, contributing to the persisting gap in Private Brand share between these markets.

Interestingly, despite their value moniker, retailers like Aldi and Lidl have been global leaders in incorporating consumer feedback into their Private Brand programs. In the U.S., there is enormous opportunity to get more input from engaged shoppers to augment existing programs and provide tailored solutions.

Among engaged U.S. shoppers, 69% want to give feedback to help improve the shopping experience.

While value for money scored high on both sides of the Atlantic, the European respondents gave Private Brand higher scores on 10 value-added metrics.
Let Your Imagination RUN WILD

Physical stores are not going away, but they must go that extra mile to create a destination for shoppers. Despite continued migration to online shopping, even eCommerce retailers are acknowledging the importance of the physical store. In fact, upon announcing its equity stake in Sun Art Retail Group, China’s second largest big-box retailer, Alibaba CEO Daniel Zhang stated, “physical stores serve an indispensable role during the consumer journey, and should be enhanced through data-driven technology and personalized services in the digital economy.” The challenge faced by physical retailers is that stores need to look and behave differently.

Daymon’s research has identified the five key strategies retailers must employ to drive toward the next generation store.

Connect, Collaborate, Create

With diminishing brand and banner loyalty, retailers have to get more creative to encourage greater connectivity with today’s (and tomorrow’s) shoppers. In fact, only 49 percent of shoppers say their main grocery retailer communicates with them in a relevant way. A variety of new approaches are emerging to deepen shopper engagement, such as crowdsourcing, co-working and community spaces and innovation destinations.

• German discounter Aldi Süd, Trader Joe’s in the U.S. and global coffee giant Starbucks have all used online crowdsourcing to solicit feedback for new product ideas and designs. In the spring of 2017, Aldi Süd asked shoppers to share their ideas for the ultimate pudding dessert topping on Facebook. The winning idea will be rolled out as a new product across its stores.

• U.S. regional grocery retailer Lowes Foods has installed “Community Tables” in several stores in North Carolina. Shoppers are invited to the table to sample products from local businesses, participate in cooking classes given by local chefs, and more – all in an effort to feed shoppers’ interest in collaboration.

• Global athletic apparel brand Lululemon has created Lululemon Labs in New York City and Vancouver, Canada. Part store and part incubator, these locations enable the brand to connect with shoppers in real-time and modify designs according to their feedback.
With diminishing brand and banner loyalty, retailers have to get more creative to encourage greater connectivity with today's (and tomorrow's) shoppers. In fact, only 49 percent of shoppers say their main grocery retailer communicates with them in a relevant way. A variety of new approaches are emerging to deepen shopper engagement, such as crowdsourcing, co-working and community spaces and innovation destinations.

**It’s All About Me**

- U.K. grocery retailer Waitrose is commercializing personalization with a novel take on store loyalty programs by allowing its loyalty card holders to pick their own offers and receive 20 percent off their chosen selection of 10 items.

- Jumbo Foodmarkt in the Netherlands provides a Private Branded service example with its Pick & Mix Vegetable Snack Station within the produce section, where shoppers can fill a single-serve plastic container with a variety of snack-sized vegetables of their choosing for a single price.

- Leveraging the latest in digital advancements, Dylan’s Candy Bar in New York City has a dedicated personalization area in the store that uses 3D printers to deliver fully customized, Private Brand candies to shoppers in real-time.

Engaged shoppers increasingly expect products and services that are tailored to their lifestyles and unique needs. The good news for retailers and brands is that investing in personalization does pay off, with 77 percent of consumers claiming that they have chosen, recommended or paid more for a brand that provides a personalized service or experience. Further, 48 percent of U.S. marketers say that personalization on their websites and apps has led to lifts of +10 percent.

The natural challenge with personalization is the associated incremental costs. Private Brands are uniquely positioned to allow for scalability and profitability of a more customized proposition for shoppers, thanks to their inherent flexibility and retail control. Progressive retailers are already thinking in these terms, and introducing innovative approaches to personalization through Private Brands.

**The Store, Made Fun for Me**

Thanks to technology, we are living in a world of endless over-stimulation. Attention spans are shrinking and expectations are rising as the relationship with digital deepens, making it more challenging than ever to break through and drive traffic in-store. To address this new hyper-connected mindset, retailers and brands must get more creative and offer new reasons to shop in physical stores beyond mere products. As proof, 78 percent of Millennials say experiences are more important than products. Tapping into consumer desire for discovery, “edutainment,” and multi-sensory interaction is critical to cement your place in the shopping journey.

- To highlight its President’s Choice Private Brand, Canadian grocery retailer Loblaws developed a PC Insiders Collection featuring unique, seasonally-inspired Private Brand products that create new and shareable food experiences using its “Must Try” assortment. Year-over-year, shoppers now look forward to what’s next.

- Pharmacy and beauty retailer Boots has created a designated “Beauty Finds” display area in one of its London stores that curates the latest innovative and unique products discovered by its buyers.

- Cash and carry retailer Sligro has incorporated an interactive, digitally-enabled coffee tasting station at its store in the Netherlands, where shoppers can sample a host of coffee varieties and simultaneously find out more about the coffee with a simple touch of the tasting table, which doubles as an interactive screen.
**Get Fresh**

Think platform, not department. Fresh is a key driver of loyalty for engaged shoppers, with 6 in 10 shoppers citing fresh categories as important factors in store choice. Further, a strong fresh program mitigates attrition to online. In fact, 67 percent of shoppers cite preferring to select fresh products themselves in-store as the number one reason for not shopping online. With consumer expectations at an all-time high, coupled with more and more non-traditional retailers (e.g., value, mass, drug, convenience) expanding into fresh, stores must go beyond the basics to differentiate. To capture the full value of fresh, retailers must take a more holistic approach, including new approaches to product development, merchandising and in-store services to address these higher standards.

- Walmart has partnered with organic fast-food startup Grown, founded by former NBA star Ray Allen and his wife, to incorporate the restaurant into one of its newest stores in Orlando, Florida.

- Estonia-based petrol station chain Alexela Oil introduced local farmers’ market stands in select stores. Farmers are able to book a stand free of charge and sell their home-grown goods, such as fruits, vegetables, honey, milk, juice, jam and handcrafted items.

- Midwestern U.S. supermarket chain Hy-Vee has begun a meal-prepping party program that runs like a local book club. A group of five to 12 customers schedule a time to gather in a kitchen-equipped club room in the store to prepare a recipe together, and then divide up the meals for everyone to take home.

**Easy Breezy**

In our always-on digital world, shoppers are bombarded with too many choices and too little time. With time as the new currency, delivering on ease and simplicity is even more critical to compete. Immediacy is the new shopping mantra, with 64 percent of consumers expecting companies to respond and interact with them in real-time. Retailers and brands must rethink their approach toward convenience to address the new on-demand culture. Relevant curation, streamlined omnichannel and seamless mobile integration are three key elements to deliver on frictionless commerce in-store.

- U.S. pharmacy and drugstore chain CVS has created a next-generation customer experience around “discovery zones,” which take a holistic approach to care, product assortment and education. Examples include connected health, sleep/mood and immunity solutions.

- U.S.-based mass retailer Target has made notable strides to elevate its combined shopping and Cartwheel savings smartphone app. Shoppers can access an indoor map that shows their location in the store, along with nearby Cartwheel deals, and support for scanning and mobile payments.

- Retailers like Walmart in the U.S. and apparel retailer UNIQLO in Japan are streamlining the online order/pick-up process in new ways — Walmart through dedicated, well-signed and automated click-and-collect stations, and UNIQLO by partnering with convenience retailers like FamilyMart and Lawson to set up pick-up service in their stores nationwide — making it easy for shoppers to be in, out and on their way on their terms.
Wellness brands are the fastest growing segment in the Private Brand universe. Every retailer, from the most price-oriented to the most progressive, can differentiate with a wellness brand program suited to their customer segments and banner values. Here are some of the key strategies behind successful programs.
Fresh is the marker of health and wellness at retail, and the quality of fresh offerings is how consumers judge a retailer’s fitness as a partner in their wellness journey. The markers of fresh, such as organic, seasonal, local, sustainable and transparent, can be leveraged throughout the store, not just in the produce department. Looking at all organic food categories, not just fresh, 22 percent of respondents to the Organic Trade Association’s (OTA) 2017 consumer survey agreed that organic foods “are fresher and/or more nutritious than non-organic foods.” OTA data show that U.S. sales of organic fruit and vegetables rose 8.4 percent, and organic meat, poultry and fish sales rose 17 percent from 2015 to 2016.

According to Daymon’s own research, 60 percent of consumers would like to see Private Brands have more presence in fresh.

- Aldi is expanding its fresh produce and organic assortment at ALDI.us/hellohealthy. Visitors find new offerings each week, including meal plans, recipes, videos and tips on how to shop for a variety of eating styles, such as paleo, vegan and plant-based. Aldi has partnered with food and lifestyle leaders Cookie and Kate, A Couple Cooks, The Healthy Apple and My Heart Beets to curate recipes and meal plans and has enlisted an advisory council of registered dietitians who help shoppers find smart choices through products identified by the “Dietitian’s Picks” emblem online on their website.

- SpartanNash is participating in the Double Up Food Bucks program, administered by Ann Arbor, Michigan-based Food Fair Network, that matches Supplemental Nutrition Assistance Program purchases of fresh fruits and vegetables with a financial benefit to local growers as participating stores prioritize local sourcing. Shoppers earn points as they buy fresh produce to redeem for free fruits and vegetables.
Great flavor and satisfaction drive repeat sales, while innovative products that deliver indulgent experiences without objectionable ingredients create brand excitement and loyalty. In a national survey of shoppers, Daymon found that 41 percent would like to see ingredients like sugar and sodium removed from Private Brand products. Delicious new plant-based snacks, ingredients and meal solutions are driving sales in every category, offering opportunities to develop unique Private Brand products that give shoppers more reasons to visit you rather than your competitors.

A healthy twist on a traditional indulgence can refresh an old category and drive new sales. For example, raw chocolate made from unroasted cacao beans and cold-pressed cacao butter is seen as more natural and better-for-you, and is being incorporated into high-end chocolates by organic brand Raw Chocolate Love.

Brands walk a fine line between healthy and indulgent when they contemplate changing iconic products. Some companies are discovering that the market for their products is polarized, with consumers looking for different – and sometimes opposite – qualities in the exact same foods.

- The new owners of Hostess brought back Twinkies. They thought about making Twinkies “healthier” but this idea was discarded, because when Hostess previously tried to change the original formula, consumers complained. Many consumers believe that when one eats a Twinkie, the enjoyment comes from indulging in the flavor and spongy texture, and in disregarding the fact that they are not healthy. Still, Hostess would like to make Twinkies healthier by removing any artificial colors but keeping the same taste and texture.

- In 2016, General Mills reformulated its classic Trix brand breakfast cereal to replace chemical dyes with natural colors derived from sources like vegetable and fruit juice and turmeric extract. The colors were duller, and blue and green were eliminated, as the company’s food scientists did not find suitable natural versions. Sales of the reformulated product exceeded expectations. At the same time, however, the company was besieged with complaints from customers who missed the original neon-bright colors. In September 2017 General Mills reintroduced the discontinued version of the 63-year-old cereal as “Trix Classic,” with artificial colors. The plan was to merchandize the two versions in the same set.
Instead of using the vague “natural” label, Private Brands are making specific and defensible “free-from” promises tailored to their shoppers’ preferences. Free-from statements on-pack and in-store state that the products do not contain artificial colors, flavors, preservatives, high-fructose corn syrup, etc. This aligns with the 61 percent of global consumers, and 50 percent of North Americans, who are actively avoiding artificial colors, mostly because of health concerns. Globally, artificial colors, flavors and sweeteners in new food product launches are down 40 percent since 2011. Free-from is the new natural. Daymon research shows that 80 percent of consumers consider it important that products are free of artificial ingredients and 75 percent want products to be non-genetically modified organism (non-GMO). Knowing which ingredients and production practices your customers don’t want, and aligning your brand promise with their preferences, solidifies your role of a trusted wellness partner.

- In 2015, Aldi made a simple, clear promise that its Private Brands would no longer contain synthetic colors, partially hydrogenated oils or MSG. Aldi clearly communicated the changes in store flyers and on-pack.

- The Trader Joe’s Private Brand free-from proposition is only 6 ingredients or ingredient categories long. The primary advantages of this approach are simplicity and less frequent need for revision in response to an ever-shifting landscape of ingredient innovation and consumer attitudes. A short free-from list is easier to communicate in store, and is even posted as banners on the walls at many Trader Joe’s locations.
Consumers are genuinely concerned about climate change and want to know how the way their food is made affects the people who produce it and the planet as a whole. A 2017 Hartman Group Survey found that in the current political landscape, environmental and social justice issues have become household talking points, regardless of one’s political affiliation. According to Fleishman Hillard’s 2017 Authenticity Gap report, retailers no longer have the option to be silent on social and environmental issues: A full 69 percent of consumers would like companies’ sustainability practices to be more publicly visible.

Daymon research shows that 80 percent of consumers consider information about production practices as a differentiator driving their brand choices, and 84 percent would like to see more information about the origin of ingredients. Seventy-eight percent of consumers report that sustainable sourcing of ingredients is an important product attribute. Consumers are giving Private Brands credit for progress in sustainability, with 78 percent reporting to Daymon researchers that Private Brands have become more environmentally responsible in the past few years. The two cornerstones of sustainability are soil and people. As organic farmer and sustainability writer Wendell Berry put it, “A sustainable agriculture does not deplete soils or people.” For retail, this means sourcing products that are sustainably grown and fairly traded.

- Mars Inc. launched its Fans of Wind energy campaign in 2017 using M&M’S characters “Red” and “Yellow” as enthusiastic advocates for renewable wind-powered energy. The campaign is part of Mars’ Sustainable in a Generation Plan, which includes $1 billion of investment over the next few years to tackle urgent threats including climate change, poverty in the supply chain and scarcity of resources.

- Online retailer Everlane offers what it calls “radical transparency.” When you preview your desired item, it shows detailed information about the item, the factory where it was produced and more. You can even click and see pictures of the factory where the item was produced!

- In October 2017, Vermont ice cream maker Ben & Jerry’s signed an agreement with a farmworkers’ group that establishes labor standards for the company’s suppliers in the state, and creates an enforcement strategy that encourages workers to speak up about violations. A 2014 survey of about 170 dairy workers in Vermont by Migrant Justice, a farmworkers’ advocacy group, found that in addition to a scarcity of days off, workers had schedules that frequently kept them from sleeping more than a few hours at a time and many lived in substandard housing. Now, workers at dairy farms that supply Ben & Jerry’s will have the right to one day off a week and will earn at least the state minimum wage, currently $10 an hour. Workers will also be guaranteed at least eight consecutive hours of rest between shifts and housing accommodations that include a bed as well as access to electricity and clean running water.

- In October 2015, Whole Foods rolled out its “Responsibly Grown” produce rating system that assesses growing practices impacting human health and the environment. The system labels fruit, vegetables and flowers as “good,” “better” or “best” to help shoppers make informed choices. In addition to producing growing practices, the Responsibly Grown program addresses the threats facing pollinators, including high-risk pesticide use, loss of habitat, and disease spread from managed bees to wild pollinators.
More and more, consumers are taking ownership of their personal wellness. And the shift in attitudes is happening at light speed: 52 percent of consumers have changed their views on health and wellness in the past few years alone, with 62 percent of shoppers viewing food as medicine. Precision Wellness is a major opportunity for retailers and brands to more deeply align with customers in more relevant and personalized ways. Twenty-five percent of global shoppers surveyed by Daymon expressed interest in receiving personalized nutrition/lifestyle advice from wearable activity trackers, and 23 percent expressed interest in receiving personalized nutrition/lifestyle advice from DNA tests.

However, Precision Wellness is not just about DNA kits and wearables. New sources of personal health data and insights are elevating consumer expectations to drive change in the potential for new solutions tailored to shoppers’ proactive approach to their personal wellness. On average, individual consumers are personally engaged in actively treating or looking to prevent nine different health conditions. In-store dietitians are the new bridge between pharmacy and grocery, providing not only health and nutrition counseling services, but also recommending products on the basis of their personal wellness needs. Here are some strategies in action:

- Retailers and independent health food stores offer registered dietitian appointments for customers to develop personalized weight-loss plans, pre-diabetes and diabetes screening, heart health checkups, and group store tours to learn about healthier choices.

- ShopRite found that many of its shoppers were overwhelmed by the abundance of healthy-eating information available today so they launched the Well Everyday program in April 2017. It was deemed an “in-store messaging program that is aimed at highlighting better food choices and designed to help customers take small steps towards better nutrition,” according to a company release. The campaign includes in-store signage to generate “uplifting” and “positive” conversations with shoppers about healthier choices and recipes. In-store dietitians give demonstrations that break down nutritional information into basic, easy-to-absorb nuggets.

- Activity trackers have entered Private Brand. Walgreens is a pioneering example with its Striiv wearable. It links with the Walgreens Balance Rewards app and allows the user to earn points towards in-store product discounts.

- Retailers such as Stop & Shop and Rite Aid have installed in-store stations called Higi stations, which measure blood pressure, weight and BMI and sync with an app that tracks your physical activity to let you set challenges based on your wellness goals, such as losing weight and lowering blood pressure. As they meet these goals, shoppers are given rewards delivered by gift cards towards in-store purchases.
DAYMON views the consumer through its proprietary forecasting tool called The Global TrendWheel™, which identifies, defines and tracks the evolution of global shopper behavior.

One of the most influential mega trends today is what Daymon calls “Value Matters”, which states that consumer attitudes toward spending are shifting beyond price to a quest for alignment with personal values. This is a driving force behind the increasingly broad reach of discount-oriented stores such as Aldi and Lidl and why they – along with Walmart – now rank among the top retailers in the world. Here is Daymon’s perspective on what is driving this “Value Matters” trend:

**SMART SHOPPER**

Power has shifted to the consumer, who through technology has been given transparency on prices and products, enabling more informed shopping and a “prove it” mentality. Two-thirds of online shoppers compare real world and online prices before deciding what to buy. And trustworthy opinions matter more than ever, as 81 percent of consumers say they are influenced by family and friends when making purchases.

**STRATEGIC SPENDER**

Consumers are trading off to stretch dollars even further. New shopping behaviors, such as “high and low” spending — where consumer are turning to discount for some products and premium for others — are squeezing retailers in the middle. Today, 45 percent of grocery shoppers say they are visiting value-oriented stores more often.

**THE NEW PREMIUM**

Premiumization and its associated higher prices are no longer just about cachet. Consumers are seeking new premium value markers, such as authentic, artisanal, craft, customizable, sustainable and ethical. This evolution has not been lost on the leading global discounters who continue to integrate these ideas into their Private Brand strategies. In 2016, Aldi became the first major retailer in Europe to ban pesticides toxic to bees from all its products. Lidl’s U.S. stores offer frozen and fresh seafood from only sustainable sources.
SAFE & SECURE

There is also a tremendous value that consumers place on feeling protected. Three in four people have had personal information stolen due to security breaches. Consumers have low confidence that their personal information is adequately protected by government, retailers and service providers. Data breaches and the growth of the surveillance state pose new challenges for retailers as they seek to collect more actionable data from customers.

BRAND AGNOSTIC

Consumers are moving away from brand, banner and channel loyalty toward whatever best meets their needs. Purchasing power is shifting to shoppers who did not grow up in the mass advertising of the 80’s and 90’s. These shoppers look for products, not brands. Consumers are shopping more channels compared to previous years – and fewer are loyal to certain stores. For most food categories, less than one third of shoppers feel loyal to a specific chain. And according to one global study, people around the world wouldn’t care if 74 percent of brands disappeared. If it’s not relevant, it’s expendable.

When considering these factors together – more savvy shoppers are looking for new and varied value markers with less reverence to the traditional big brands. The retail landscape is ripe for innovative discounters that can offer unique and differentiated Private Brands.

Learn More

Do you want to see our entire Global TrendWheel™?
Go to the Newsroom on Daymon.com to download our Shopper To Advocate Study.
LIDL’S ENTRY INTO THE U.S. WILL CHANGE
the game for the country’s retail industry, but
not in the way you might think. Lidl by itself
won’t necessarily become grocery’s dominant
force, but their presence will confirm the viability
of the discounter channel by amplifying and
enhancing the role already being played by Aldi.
Through the sheer force of these stores, many
traditional players are set to become casualties
to the discount channel, projected to be the food
industry’s fastest growing channel through 2022
(+5.8 percent).

Lidl’s new stores are already making an impact on retail,
pushing Aldi to spend $5 billion to renovate its stores and
launch many others (approximately 900 in 5 years to reach a
total of 2,500). These stores will be newer, larger and more
exciting, with Private Brand offerings leading the way as a
driver of consumer engagement and differentiation. The
ensuing domino effect has triggered Walmart and Kroger
to lower their prices and Food Lion to renovate its stores.
Similar to the effect of watching the same TV commercial
over and over again, the continued consumer exposure to
Lidl and Aldi stores will change perceptions.

Shoppers will come to expect high-quality
Private Brand items at super-low prices no
matter where they are. And through the battles
Lidl and Aldi wage against each other, the entire
grocery industry will be forced to be more
efficient and more engaging. This phenomenon
has already played out in other countries,
notably the U.K., and consumers were the
beneficiaries as Private Brand quality and
innovation increased while prices dropped.

Aldi and Lidl are addressing a critical consumer trend of
“Value Matters,” where consumers are smart shoppers,
spend strategically, are less brand loyal, and value many
factors beyond just price (i.e., authentic, sustainable, ethical,
customizable). In charting their own path, these two retailers
do not leverage Private Brand as a way to offer consumers
a lower-priced alternative to national brands; they see their
brands as the primary reason to shop the stores, sometimes
accounting for 90 percent of the overall assortment. And
these items include attributes such as organic, gluten-free,
imported and gourmet with trend-forward flavors, many of
the hallmarks of the “Value Matters” trend.
Lidl is also focusing heavily on areas of the store not typically associated with discount Private Brand. The fresh departments are the most evident based on the new store layouts in the U.S. Entering the store, the senses are immediately struck with the smells of the fresh bakery, the bright colors of the floral section and an expanded produce set. In addition, general merchandise (including apparel) and alcoholic beverages are two destination departments for Lidl that will disrupt the retail industry well beyond just grocery.

While there have been mixed reports about Lidl’s initial U.S. success, rest assured, they are in for the long haul. Why? Firstly, Lidl has a proven track record of adaptability if they are faced with market challenges or in a position to gain a competitive advantage. This was the case in Portugal where Lidl successfully adjusted their standard pre-packaged fish program to supplement with a fresh fish offering – a requirement by Portuguese consumers who expected it from their grocery store. Secondly, they have shown time and again the ability to break through in even the most mature of markets, and especially when Aldi is already present.

This is the case in the U.K. where Aldi and Lidl have carved out a combined +12 point share in two decades from existing domestic retailers. And lastly, Lidl has immense size, scale and boundless resources.

Lidl in 2017 is not the Tesco of 2009 when the company launched its ill-fated “Fresh & Easy” U.S. concept. Being a private company that does not answer to shareholders has its benefits, and Lidl is not arriving at the start of a recession either.

In the meantime, they will wreak havoc on U.S. retail, as consumers in their market areas flock to the nearest German discounter with a four-letter name to take advantage of unique Private Brand products of high quality and low prices.
Lessons Learned 2017
A Glimpse Back

As we look back on another year of tectonic retail shifts, 2017 witnessed deeper fragmentation of demand, accelerated corporate consolidation, a race to digitize and deliver, conversational commerce and record migration to Value and Private Brand. The pressure to perform is relentless, and no retailer goes unpunished. With continued pressure on the middle class, socioeconomic uncertainty and brand agnosticism will continue to fuel growth of Value retailers.

Hits
Smart Partnerships

With little surprise, the Amazon-Whole Foods merger tops the list of retail hits in 2017. But many experts we spoke to pointed out that it’s actually just one of several examples of smart partnerships between major eCommerce and traditional retailers that developed this year.

“We see the Amazon-Whole Foods merger as part of a larger trend of digital and physical partnerships,” says Nicole Peranick, Senior Director of Thought Leadership for Daymon. “Their partnership, along with those of players like Albertson’s and Plated, Walmart and Modcloth, and PetSmart and Chewy.com, are the blending of the best of both worlds. Brick-and-mortar doesn’t know how to do online well and online doesn’t know how to do brick-and-mortar well. By combining forces, they can use their respective expertise to have a greater impact.”

Peranick also says this strategy can be an effective way for retailers to remain competitive. “The retail space is changing very quickly and many legacy companies cannot adapt as quickly as customers want them to... Those who are fighting for their survival can make quick progress by acquiring a strategic partner who fills a niche that they can’t.”
New Concept Stores

For Tom Stockham, CEO of marketing solutions firm Experticity, the biggest retail story of 2017 was the launch of Nordstrom Local. “The new store is only 3,000 square feet and while you can return or pick up online orders at the store, there’s no actual inventory. Instead the location offers customers personal stylists, tailoring services and manicure appointments,” he explains. “The whole purpose of the physical store is to deliver expertise and help customers have better buying experiences. The trend of increasing the customer experience will be increasingly important as the buying landscape continues to evolve.”

Walmart’s Focus on Digital

Walmart’s intensive focus on digital strategy was a top retail hit this year for Ed Kennedy, Senior Director of Commerce for omni-channel software company Episerver. “In recent quarters, Walmart has double-downed on its eCommerce and in-store digital strategy. The retail giant has deep roots in brick-and-mortar, but has adapted to the growing need for digital commerce capabilities such as mobile payment options, click-and-collect and same-day pick-up perks and added inventory for online shoppers,” he explains.

Peranick agrees Walmart’s focus on digital innovation has been a success story this year. “Walmart has shifted its focus from ‘Target is my competitor’ to ‘Amazon is my competitor.’” And in acknowledging that online is a real threat, they’ve been able to combine their data and infrastructure with the expertise of recently acquired Jet.com to drive initiatives like the Scan & Go app, endless aisle kiosks and self-serve click-and-collect stations,” she says.

Aldi’s Radical Reinvention

While much of the grocery industry’s focus in early 2017 was on Lidl’s launch in the U.S., Peranick says its main competitor Aldi has actually come out as the winner this year.

In 2017, the discount retailer embarked on $1.6 billion plan to update and remodel 1,300 stores in the U.S., expanded its fresh offerings, integrated with Apple Pay, partnered with Instacart to offer home delivery, and announced an expansion investment of $3.4 billion to open 900 additional stores in the U.S. over the next five years.

“Aldi has been in the U.S. for 40 years and was already starting to make changes, but Lidl’s launch provided the additional impetus to radically reinvent,” says Peranick. “In turn, Aldi has made a very aggressive investment and they’re capitalizing on the momentum they already have by elevating the shopping experience.”
“Based on our From Shopper to Advocate study, we know that the most engaged shoppers—who are also the most valuable shoppers—are looking for integration between digital and physical.”

DAVE HARVEY, Vice President of Thought Leadership for Daymon

MISSISS

Brick-and-mortar Bankruptcies & Failures

Some called it the “retail apocalypse” while others pointed to specific retail failures, but the percentage of high-profile bankruptcies and store closures might be seen as one of the biggest retail failures of 2017.

Daymon Creative Director Ryan Dee says that many retailers who have failed or are failing appear not to be listening to what consumers want. “I don’t know if they’re paralyzed by fear or if it’s taking too long to right the ship, but the signs have been there for some time now that consumers are driving the conversation and the retailers who aren’t listening are failing.”
New Concept Stores

For Tom Stockham, CEO of marketing solutions firm Experticity, the biggest retail story of 2017 was the launch of Nordstrom Local. “The new store is only 3,000 square feet and while you can return or pick up online orders at the store, there’s no actual inventory. Instead the location offers customers personal stylists, tailoring services and manicure appointments,” he explains. “The whole purpose of the physical store is to deliver expertise and help customers have better buying experiences. The trend of increasing the customer experience will be increasingly important as the buying landscape continues to evolve.”

Lidl’s Rush to the U.S.

Grocery discounter Lidl’s launch in the U.S. was highly anticipated thanks to its reputation in Europe for delivering high-quality products at a low cost. But when its first U.S. stores opened and Daymon’s quality experts began testing select products, they were less than impressed in several categories.

According to John Reilly, Daymon Senior Director, Global Quality Assurance, five out of the 14 products tested were not a national brand match, even though the packaging sent subtle cues indicating they were intended to be a national brand equivalent.

Between these branding clues and Lidl’s reputation in Europe, “we don’t believe Lidl put their best foot forward, likely due to their rush to enter the market and inability to meet minimums,” says Carl Jorgensen, Director of Thought Leadership for Daymon. “But that doesn’t mean they won’t succeed over the long haul,” he warns. “One of our predictions about Lidl is that because they are privately held and have resources, they have the luxury to work on this and to learn from their mistakes.”

Underestimating Amazon in Grocery

Another failing in the grocery arena was traditional grocers’ continued underestimation of the Amazon threat, as evidenced by their slow adoption of digital and lack of disruption in the in-store space, says Dave Harvey, Vice President of Thought Leadership for Daymon.

“Based on our From Shopper to Advocate study, we know that the most engaged shoppers—who are also the most valuable shoppers—are looking for integration between digital and physical. For example, they’re 83 percent more likely to use a mobile device to decide what to buy while shopping in-store, and 90 percent more likely to prefer stores with apps for shopping and paying,” he explains. “They also value services, multi-sensory experiences and the ability to customize products. These are all areas where traditional grocery retailers could be innovating and disrupting, but largely are not.”
Neglecting Data in Digital Advertising and Marketing

“While social media advertising has been widely adopted as a mainstream retail tactic, not every retailer and brand is getting it right,” says Jason Nesbitt, Vice President of Media and Agency Operations at Strike Social, a social media advertising firm.

Nesbitt points to a recent case study from Strike Social that revealed while parents have a 309 percent higher click-through rate on YouTube campaigns across key retail holidays such as Thanksgiving, Black Friday and Cyber Monday, YouTube advertisers budgeted more in advertising to non-parents during the holiday shopping season. Another study showed that while advertisers spend 156 percent more to target Millennials through YouTube campaigns than any other generation, Baby Boomers actually have both higher advertising view rates and click-through rates—not to mention the fact that they spend more.

“Brands will only be able to see results in social media advertising if they listen to the data. This statement may sound obvious, but I find it surprising how tough this is for some brands to embrace. Oftentimes, brands are stuck in a rut of assuming who their customers are,” says Nesbitt.

According to Rekha Ramesh, Senior Vice President of Global IT & Digital for Daymon, retailers are making similar mistakes in their attempts to use proximity marketing. “Most attempts haven’t been successful because they didn’t hit the right consumer,” she explains. “Proximity marketing can go terribly wrong when it’s seen as spamming. To be effective in turning the decision moment into conversion, you have to send the right offer, at the right time so that it’s relevant for the consumer.” All that requires—you guessed it—better integration of data.
VALUE REIGNITES THE PRIMARY SHOP
The face of Value has changed. Discounters have moved beyond price slashing and are now investing to elevate the shopping experience. Store reinvention, fresh expansion, Private Brand exclusives, accent on health and wellness, new in-store services and digital integration are shifting consumer spending away from traditional supermarkets to value retailers like Aldi, Lidl, Walmart and Dollar General. In 2018, the value channel will steal more and more of the primary shop, with projections suggesting 41 percent of total food store growth in the U.S. will come from discounters. After a year of format and innovation pilots in 2017, non-value retailers will respond more aggressively in 2018 to avoid becoming the occasional fill-in trip.

FROM NATIONAL TO PRIVATE BRAND
As noted in Daymon’s 2017 From Shopper to Advocate Global Study, Private Brand has come a long way from its value and “me too” heritage, and shoppers have taken notice. Consumer skepticism of corporations and Big Food, coupled with trend-forward innovation in Private Brands from retailers like Trader Joe’s, have fueled a reconsideration of brand choice in favor of Private Brands. With greater consumer acceptance, control, differentiation potential and profitability, retailers will refocus their attention on strengthening their Private Brand portfolios, driving proprietary innovation in products, services and experiences. Expect to see more and more retailers tout their Private Brands and extend into new categories and adjacencies. In fact, as reported by Supermarket News, in Kroger’s third quarter 2017 analyst call, Michael Schlotman, Executive VP and CFO said, “Our sales mix was very strong in the quarter relative to more natural foods and more Private Label, which did drive our margin rate up.”

MANUFACTURERS BYPASS RETAILERS TO GO DIRECT
As retailers focus more on their Private Brand portfolios and put even greater pressure on manufacturers to deliver (with Walmart and Kroger beginning to fine suppliers for late deliveries!), 2018 will see more efforts to go direct to consumers. Home delivery of unique product offerings and expansion of subscription services are evidence of this trend unfolding. CPG manufacturers including Proctor & Gamble (subscriptions), Campbell (premium soup delivery) and Kellogg’s (Bear Naked brand’s customized granola) have developed direct-to-consumer solutions. Thanks to continued consumer adoption of online shopping, coupled with the growth of the Internet of Things (IoT), manufacturers have free reign to rethink their business models with go-to-market strategies without middlemen.
CENTER STORE REINVENTION IS URGENT
Thanks to the expansion of direct-to-consumer, online grocery, subscription services and a shift to the perimeter of the store, the need to reinvent center store has never been more imminent. Research has shown that consumers are only spending 18 percent of each shopping trip in the center of the store, but the average supermarket still devotes more than 80 percent of its floor space to center store aisles. In today’s over-stored environment, retailers will be challenged to make better use of what has become under-performing selling space. National brands like Hershey’s and Campbell’s have been working with retailers to rethink and reinvent departments. Mike Paul, a Vice President who is leading Campbell’s disruptive innovation efforts, stated, “As a company, our goal is to reinvent the center of the store — which includes soup but it’s much more. My team is really interested in challenging the conventional CPG model and experimenting with how products are developed, how brands are born and how we go to market.” In 2018, retailers will bring the future of center store forward through: Solutions-Focused Planogramming; Repurposing Space for Discovery; Seamless Integration with Digital; Shopper Interaction and Personalization; Blurring Boundaries between Fresh and Center Store.

THE RACE TO DIGITIZE IS IN HIGH GEAR
In many ways, digital has shifted control to shoppers, with 70 percent of consumers agreeing that technology has made it easier than ever to take their business elsewhere. In fact, the most engaged shoppers are actually deciding where to shop and what to buy based on a store’s or brand’s digital experience. Progressive retailers and manufacturers have been working diligently throughout 2017 to digitize retailing, piloting apps, click-and-collect, in-store endless aisle kiosks, mobile payment, blockchain and more. Here’s the phenomenon — a more digitized experience is actually rebalancing retail control between shoppers and merchants, potentially in favor of the latter. Beyond Apple and Amazon, Walmart is worth highlighting for its own mobile wallet inside its smartphone app. According to a November 2017 Bloomberg article, “Walmart’s app is close to surpassing Apple Pay in usage for mobile payment in the U.S., giving the world’s largest retailer even more clout as a growing number of people shop with their smartphones.” These efforts now will be put into high gear across retailers and manufacturers, with the goal of generating branded ecosystems to incentivize shopper loyalty and exclusivity.

ACQUISITION AND VENTURE CAPITAL UPEPEND INNOVATION
If you can’t beat them, join them. Consumer demand for fresh, healthy, local, authentic and ethical products has put enormous pressure on retailers and brands to innovate. To deliver on these needs quickly while balancing fiscal responsibilities, acquisitions and strategic investments are rapidly replacing innovation from within and this trend shows no signs of slowing down. In fact, deal activity in the U.S. retail and consumer products space in Q1 2017 alone reached its highest level in the past 10 years, totaling 393 announced transactions that are valued at a combined $91.8 billion. From CPG venture capital units (General Mills’ 301 Inc. and Kellogg’s Eighteen94 Capital) to unconventional acquisitions (Amazon-Whole Foods and CVS-Aetna), retailers and brands are pulling out all the stops to remain relevant and secure their place with shoppers. 2018 will see even more investments in specialty brands, technology start-ups and unexpected acquisitions to address shopper’s evolving list of wants and needs.
WORKFORCE UPSKILLING
Consumers today demand more than product innovation. As is well-documented, they seek experiences, not “stuff,” with 78 percent of Millennials claiming experiences are more important than products. Shoppers want to become experts or “aficionados” themselves. This behavior is leading retailers and manufacturers to offer specific expertise both in and out of store in order to cater to niche markets that they can own. Despite a heightened focus on leveraging technology to replace humans, progressive companies are seeing the upskilling of its workforce as a competitive advantage. Starbucks is a good example of a company focused on balancing technology with employee advancement. In a December 2017 CNBC interview, Starbucks chairman Howard Schultz said that he can see a future in which his coffee shop chain will be “cashless ... that time is nearer than you think.” However, he also said that a priority for the company is to continue to focus on its people as a competitive advantage. “I don’t see a day where artificial intelligence or robotics is going to replace the humanity of Starbucks,” he says. “The equity of the brand is based on that intimacy between our customers and our people. That’s why we invest so much in our people ... If you don’t put your people first, and invest in your people... If you don’t I don’t think you can have that customer experience that customers are going to want to be attracted to and loyal to.” Expect more companies to adopt this motto in 2018 and beyond.

NEW NICHES PROPEL NEW FORMATS
Shifting demographics, along with greater access to information and self-knowledge, are challenging a retail industry historically based on mass market to adapt to a flexible strategy with distinct niches. When you consider the average household is actively treating or preventing nine health conditions, that necessitates the need for more targeted solutions. Beyond health and wellness, growing fragmentation of consumer preferences is driving innovation in store format, services and products, resulting in a new retail landscape devoid of traditional channel boundaries. Expansion into fresh by Value, Drug and Convenience retailers has been a major force in recent times that has blurred channel lines. And what about new white space opportunities such as specialty/organic-focused formats (Publix’s GreenWise), ethnic (Southeastern Grocers’ Fresco y Más), store within store (Tesco’s Next clothing), campus (Target’s small-format expansion), retail-tainment (Barnes & Noble Kitchen), unmanned store (Yonghui in China), lifestyle curation (CVS next generation format), urban (Carrefour in Italy) and transit-oriented (Moby Mart in Shanghai). Foundations have been laid for continued expansion of these types of concepts into 2018 and beyond.

CO-CREATION DRIVES NEW DATA GENERATION
As shown in Daymon’s 2017 From Shopper to Advocate Global Study, consumers have moved from passive buyers to active co-creators, articulating their opinions to help brand owners and retailers solve for their more individualized needs. Traditional data sources have limitations in providing the depth of insight needed for strategic planning in today’s retail environment. 2018 will see the growth of crowdsourcing technologies to allow shoppers to directly participate in innovation efforts. Concepts like online gamification, pop-up retail spaces, facial coding and virtual innovation labs will be employed to test new products and services in real-time to accelerate speed-to-market.
SUSTAINABILITY AND 360° TRANSPARENCY BOLSTER THE BOTTOM LINE

Faced with a sea of choices — products, brands and shopping channels — consumers today are prioritizing social responsibility and transparency to help them filter through the noise. The impacts of their buying behavior focus on food and packaging waste, sustainability and climate change, so today’s conscious consumer is supporting brands with an environmental and social stance aligned with their personal values. In fact, 69 percent of consumers are seeking more information about a company’s personal, social, economic and environmental practices. More and more retailers and manufacturers are realizing that being bolder in communicating and delivering on these needs is good for business. In November 2017, Walmart announced that it will source all of its Private Brand coffee sustainably by 2020. Fernando Serpa, Vice President, Sourcing and Procurement Latin America for Walmart, said, “We know our customers are looking for sustainable options, and when they enjoy the aroma of our Private Brand coffee, we want to be able to meet their expectations.” Expect retailers and brands to get more aggressive in sustainable sourcing, authentic storytelling and touting their alignment with social and environmental responsibility in 2018.

10

TEN PLAYS TO WIN.

Complement your current plan or set your strategy now because... ...who doesn’t play to win?
For more insights, tools and recommendations to make your Private Brands soar, contact us today.