



Nielsen
Special Report
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Forces of change

Shopper behaviour re-shaping the future of grocery

RetailWorld

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Economic outlook generates force of change in grocery



Chris Percy, Managing Director
– Consumer Group, Nielsen Pacific

Recent economic data indicates that Australia narrowly escaped a technical recession. While this may be the case, the consumer reaction to the looming threat of a recession over the past six to 12 months has been extraordinary.

Nielsen's Global Online Consumer Survey conducted in April 2009, showed that almost two-in-three (63 per cent) Aussies thought the country was in an economic recession. Not surprisingly, it also reported Australian consumer confidence levels plummeting to an all time low of 92 – a decline of a staggering 17 points versus May 2008, driven

primarily by concerns about the economy and job security.

In response to these uncertain times, the average Australian consumer has changed their spending habits to make the value of their dollar stretch further. They are watching their discretionary spend, eating out less, entertaining at home more often, embracing back-to-basics cooking, buying more private label, shopping less frequently – but spending more per trip, and they are shopping across banners to seek out the best bargains.

Suppliers in the grocery trade are also feeling the force of the economy's descent. In January 2009, Nielsen's Retail Barometer Survey showed that nearly two-thirds of manufacturers (62 per cent) reported deteriorating business conditions over the past year, and almost half (48 per cent) forecasted domestic retail sales growth to be below three per cent annually. While pressure on trading terms continued to be the number one concern among suppliers, the Global Economic Crisis (GEC) was in at number two – a remarkable feat given that six months prior it was ranked in eleventh place (Refer to Charts 1.1 and 1.2).

The encouraging news is that despite the concerns and largely pessimistic outlook, Australia is still among the most



Consumers are eating out less, entertaining at home more often, and embracing back-to-basics cooking.

Compared to the same time last year, do you think business conditions in your industry have improved or deteriorated?

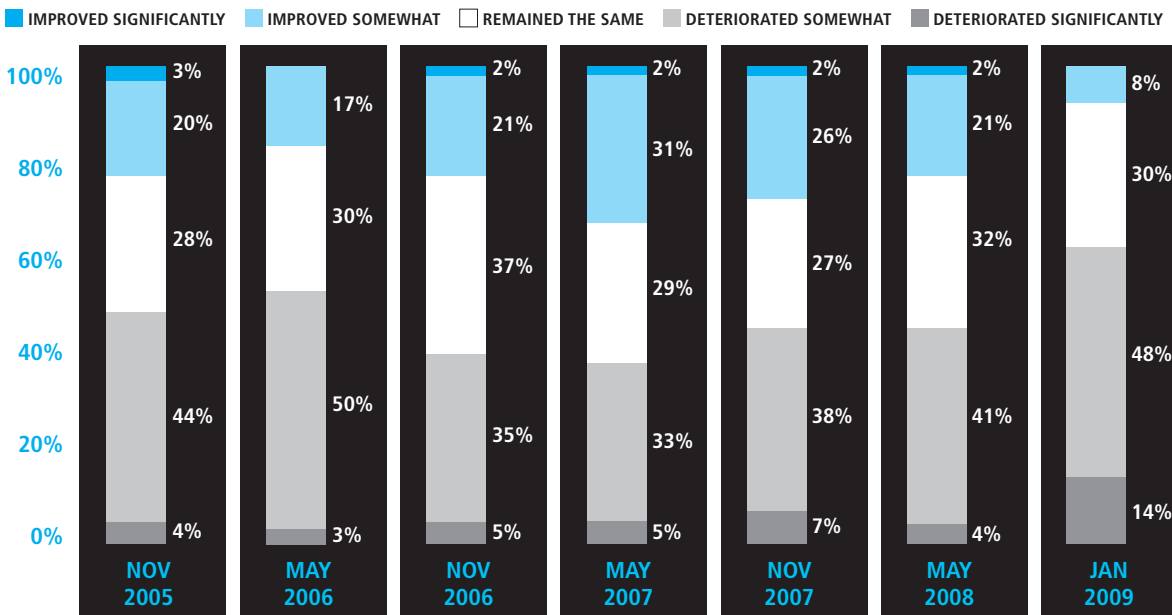


Chart 1.1: Supplier confidence sinks to an all-time low – nearly two-thirds saying business conditions have deteriorated versus previous year

Source: Nielsen Retail Barometer Survey – Jan 2009

Base: All manufacturers: Nov 2005 (n=117) May 2006 (n=118), Nov 2006 (n = 131), May 2007 (n= 129). Nov 2007 (n=112), May 2008 (n=102) , Jan 2009 (n=93)

Which of the following issues concern you in terms of the impact they may have on your business?
Rank the top three issues that concern you

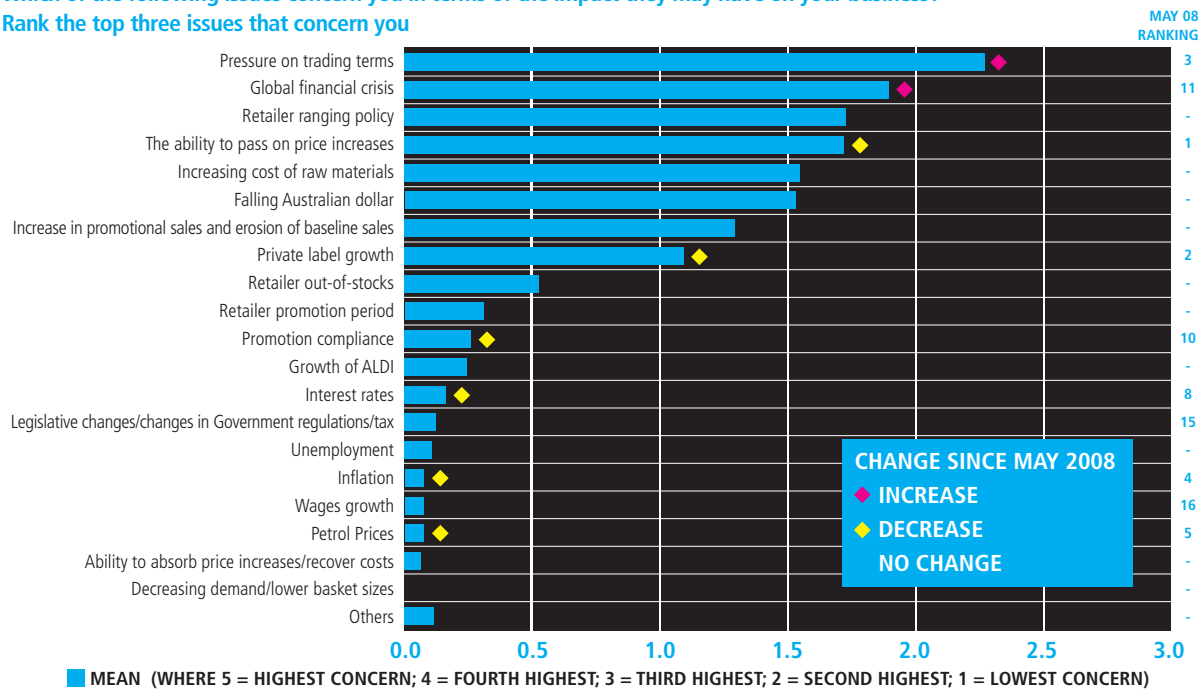


Chart 1.2: Previous concerns fall away in the face of renewed trading terms pressures and the global financial crisis
Source: Nielsen Retail Barometer Survey – Jan 2009
Base: All manufacturers (n = 93)

confident countries in the world, and most of the FMCG companies surveyed have actually reported positive sales growth driven by the fact that the grocery trade has remained resilient throughout the worst of the crisis. The impact of the Government stimulus package, steady CPI increases in food, and a growing 'share of stomach' as consumer food expenditure is channelled into supermarkets and away from cafes, restaurants and take-away outlets – have all helped to counteract negative external forces on the grocery trade.

“The next 12 months holds both challenges and opportunities in the grocery channel.”

The industry is at an inflexion point – a time when new habits are being created – and the next 12 months holds both challenges and opportunities in the grocery channel. Grocery retailers and suppliers need to respond to the forces of change that have surfaced as a result of the economic downturn, and understand how these elements will continue to shape the future of grocery in both the short and long-term.

In order to succeed during these times of uncertainty, there are three

key guidelines that both retailers and manufacturers should adopt.

1. Keep your foot on the gas: Studies have shown that companies who sustain investment in sales and marketing activities during recessions are much better positioned when the economy recovers.
2. Use the recession as a time to build competitive advantage: While manufacturers may feel apprehensive about the year ahead, it should also be viewed as a prime opportunity to re-evaluate brand strategies,

and increase the efficiency of each component of the marketing mix to place these brands in good stead for growth in the long-term.

3. Know your categories: Understand historical category responsiveness to sales and marketing levers to estimate levels of investment needed to generate acceptable levels of performance. Focus on servicing existing 'loyal' consumers. Instead of diluting your brand message to try and appeal to everyone.

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Consumers 'hop' around for best value for money



*Kosta Conomos, Executive Director
– Retailer Services, Nielsen Pacific*

The global financial crisis has had an incredible impact on the way Australian consumers shop for groceries. One of the key trends to have emerged in the past year has been the growing number of shoppers 'supermarket hopping'. In order to get the biggest bang for their buck, consumers are shopping around for the best bargains and are increasingly splitting their grocery expenditure across at least four different retailers. In fact, Nielsen Homescan data showed that in January 2009, an extra 270,000 households are shopping across more than four banners compared to the previous year (refer to Chart 2.1).

Consumers' search for better prices has led to more channel-switching. This is being driven in part by shoppers focusing more attention to pricing information. In a Nielsen Omnibus survey conducted in June 2009, more than half the consumers surveyed (54 per cent) said they had changed the way they shopped for food, groceries and/or liquor over the past 12 months. Of these consumers, around three-quarters (74 per cent) said they check prices on shelf more carefully before deciding what to buy; almost two-thirds (64 per cent) said they read supermarket flyers to look for specials; and 59 per cent said they wait for a price special to purchase.

In response to this, we are seeing a significant push by the major retailers to drive loyalty to their store brands such as Woolworths recent linkage with Qantas Frequent Flyers program, Coles major media campaign launching its new slogan 'Coles, it all counts', and ALDI's ongoing shopping basket comparisons to the major chains.

As consumers shop across supermarket chains in search of the best value, specialty retailers have been feeling the pressure to compete. Nielsen's 2008 Shopper Trends Report reported a decline in shopper penetration and patronage for specialty

food outlets (fish shops, butchers, bakeries and green grocers), with financial reasons cited as the primary reason. This is a fairly dramatic consumer shift given that in 2007, patronage for these outlets surged as consumers considered quality to be a top priority and it was perceived that the quality of fresh produce offered in these outlets was superior when compared to supermarkets (refer to Chart 2.2).

The good news for grocery retailers is that there is a real opportunity to revive the notion of the 'one-stop-shop' – a concept that has somewhat gone astray over the past few years as consumers began to embrace the quality and sense of community offered by specialty outlets. However, as value has become more of an issue – consumers appear to be willing to trade-off these attributes, along with others such as store environment and convenience.

ALDI is a strong example of how a retailer has benefited from consumers looking for a strong value proposition above anything else. Consequently, ALDI has emerged as a serious contender in the battle of 'one-stop-shopping' as more shoppers elect it to be their main source of grocery purchases. ALDI has

consistently attracted a growing number of households driven by its low priced private label range, and Nielsen research suggests that these shoppers are also actually spending more per trip as they broaden the variety of ALDI products in their trolleys. ALDI has even managed to secure strong penetration in fresh fruit and vegetables – a category where consumers would traditionally have been inclined to buy from other supermarkets or specialty stores.

The growing trend for consumers to buy more private label products however, is not unique to just ALDI. Private label is also showing strong growth across the other major supermarket chains as it becomes an attractive alternative to the price sensitive shopper. In a Nielsen online survey conducted in April 2009, 56 per cent of consumers said they were switching to cheaper grocery brands to save on household expenditure during the economic downturn, and around a third (32 per cent) said they would continue to purchase cheaper grocery brands even when economic conditions improve.

The image of private label in the mind of the shopper is changing. Nielsen's 2008

ShopperTrends Report showed that almost two-thirds (64 per cent) of shoppers agreed that the quality of private label brands 'is generally just as good as the quality of leading brands'. This change in perception has been directly translated into strong sales performance for private label products. Private label now represents almost a quarter (23 per cent) of Australian grocery sales and households spent an average of \$169.30 on private label products in the quarter to 21/03/2009 – an increase of around \$12 compared to a year ago (refer to Chart 2.3).

Retailers are embracing the rise in private label sales and have taken to promoting its merits. Just recently, Woolworths launched its first mainstream advertising for the 30-year-old Home Brand range – under the new slogan 'Take it home with pride', which aims to promote quality as well as good value.

In order to succeed in these changing times, grocery retailers need to have a firm grasp on what their consumers need and the drivers of shopper interaction. There are a myriad of initiatives which need careful consideration in addressing consumer motivations such as promotional mechanics, pricing strategies and private label programs to name a few. There is also a real opportunity to bring back the 'one-stop-shop' concept; a place perceived by shoppers as having all their grocery needs for the best price and without a compromise in quality.

"64 per cent of shoppers agreed private label is generally as good as the quality of leading brands."

Number of Banners Shopped (Household % penetration levels)

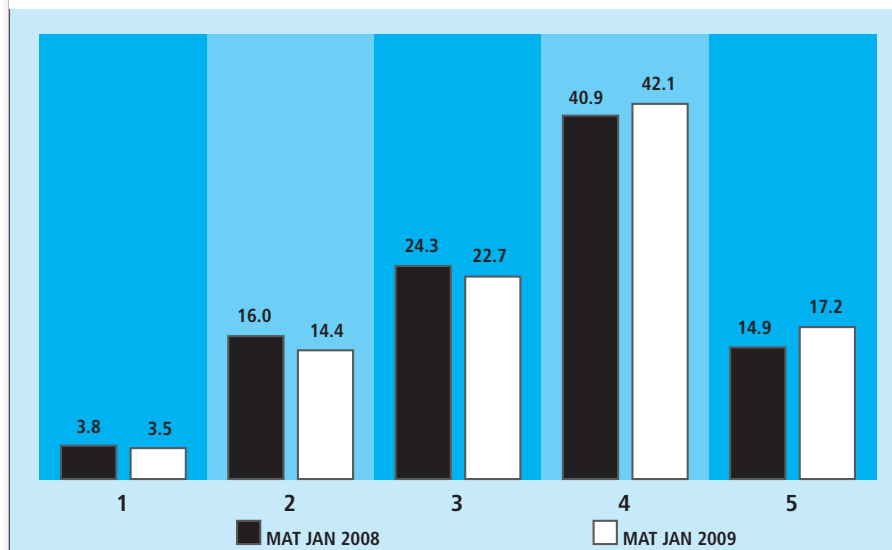


Chart 2.1: Significant fragmentation - More than 270,000 extra households now shop across more than four banners

Source: Nielsen Homescan

Fish shop/Butcher, Bakeries & Vegetable Vendors - Leverage 2007 vs 2008

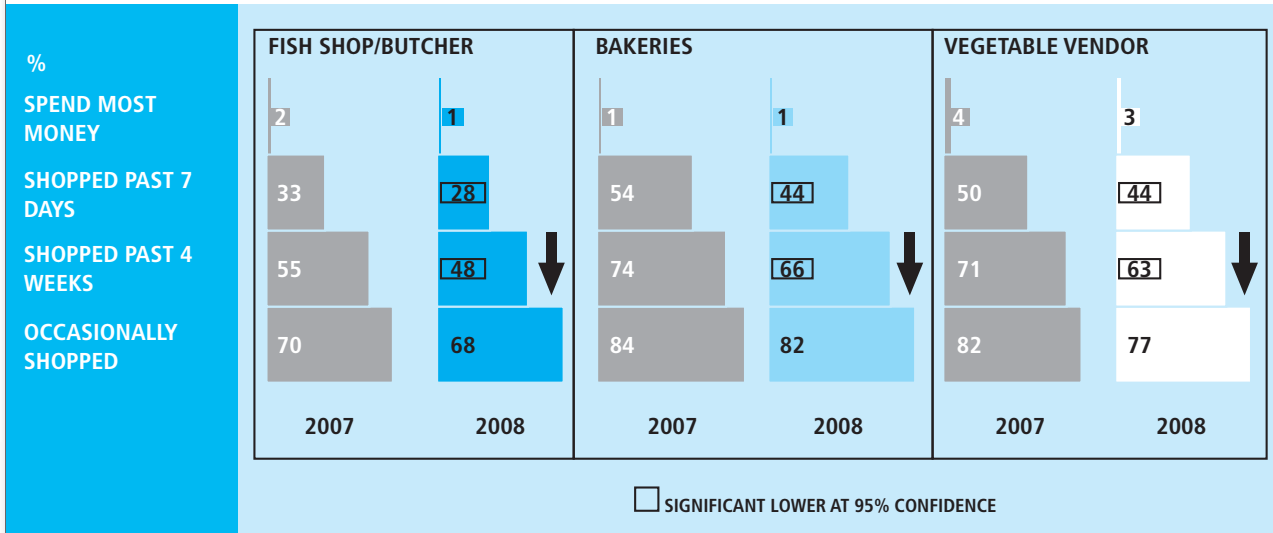


Chart 2.2: Whilst specialist fresh retailers retain a broad customer base, they have experienced a decline in frequency of use over the past 12 months

Base: All respondents (2007n=1023, 2008n=1432)
Source: Nielsen ShopperTrends Report 2008

Total Private Label: Penetration, average spend per buyer, and value market share trend

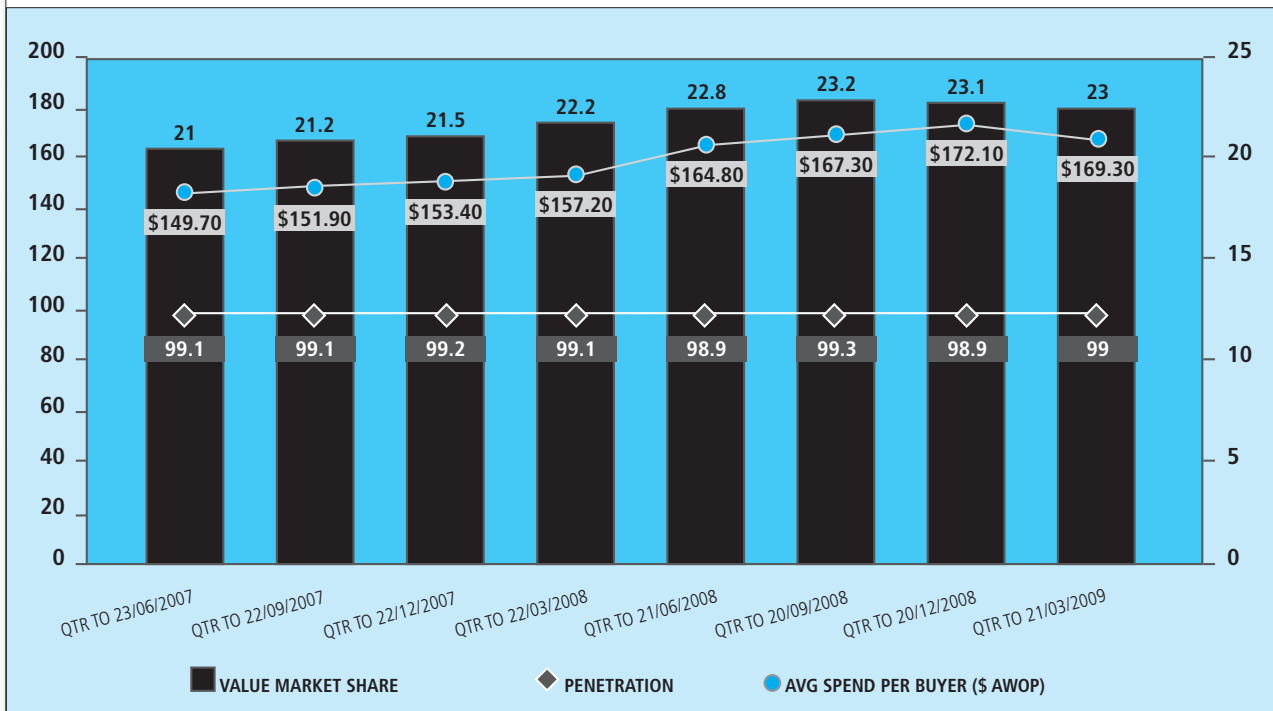


Chart 2.3: Australian consumers' Private Label spend continues to escalate with share now at 23%, and average spend up \$12 versus year ago.

Aus supermarkets - Total Private Label
Source: Nielsen Homescan

Tough times bring out consumers' inner chef



Kris Walker, Executive Director
- FMCG, Nielsen Pacific

One of the most interesting consumer dynamics to have materialised in the face of economic uncertainty is the growing stampede for more life conducted around the home. Grocery retailers are reaping the benefits as consumers allocate less of their disposable income to out-of-home food and entertainment, and channel more of their budget towards dining and entertaining at home instead.

Nielsen's Online Global Survey conducted in April 2009, revealed that nearly two-thirds of Australian consumers (63 per cent) say they have changed their spending to save on household expenditure compared to this time last year, with take-away meals and

Compared to this time last year, which of the following actions have you taken in order to save on household expenditure?

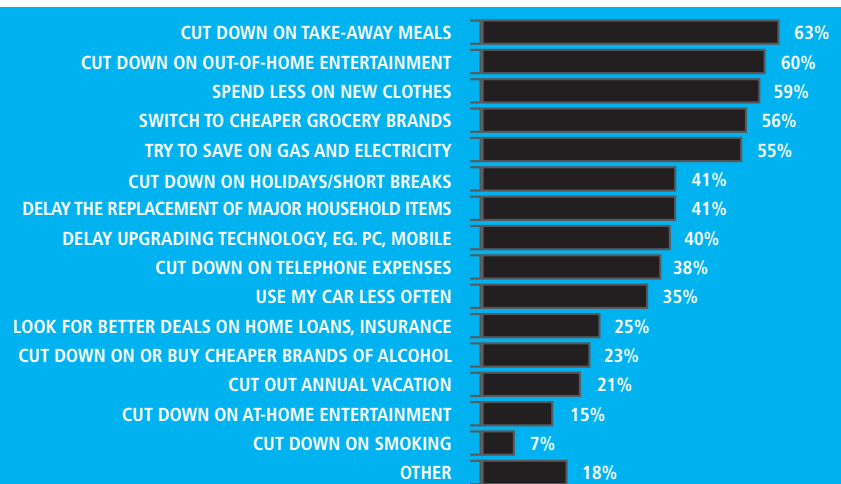


Chart 3.1: Take-away meals and out-of-home entertainment top the list of cost-cutting activities

Source: Nielsen Global Online Consumer Survey, April 2009
Base: All respondents (Australia)

out-of-home entertainment topping the list of activities targeted for cost cutting (refer to Chart 3.1).

The survey findings are supported by Nielsen's grocery sales data which indicate categories that are experiencing the strongest growth are aligned with a lift in in-home entertainment and a return to cook-it-from-scratch recipes and meals.

Within the top 20 fastest growing grocery categories (based on the top 50 largest grocery categories in sales value), strong

growth in icecream, packaged cheese, coffee, chilled spreads, confectionery, snack foods, soft drinks and packaged small goods highlight an underlying connection to in-home entertainment (refer to Chart 3.2).

Other categories included in the fastest growing list include fresh cream, chilled seafood, cooking needs, frozen pastry, meal bases/sauces/gravy and canned seafood. Not only do these categories also align with the growing trend for dining at home and cook-it-from-scratch cuisine, it also highlights another emerging movement – inspired and gourmet cooking.

According to a recent article in the *Herald Sun*, food stores are calling it 'The MasterChef Australia effect'. The unprecedented success of the reality TV show has apparently seen shoppers hitting supermarkets in droves for the latest gadgets and ingredients after being inspired by recipes on MasterChef.

For manufacturers and retailers in the grocery trade, these dynamics present some real opportunities for growth. While consumers will remain vigilant with their spending outside the home, and continue to shop around to seek the best value for money – there is still a place for premium products.

Our research suggests that consumers are looking for the best value when it comes to essential/staple items, but are still willing to splurge a little on premium products particularly if it is linked to entertaining at home. In the liquor trade for example, while overall volume sales for off-premise alcohol is down, the categories that are showing growth are in the premium space eg. imported beer, wine priced over \$10, and premium spirits.

In grocery, higher priced items can also succeed during recessionary times if the fundamentals are right. Quality of fresh produce, convenient and innovative products, and solutions that promote entertaining and eating at home, can still be affordable indulgences that continue to play a role in consumers' lives. It is imperative however, to locate key communication moments pre-store and in-store by category and by occasion.

Top 20 fastest growing grocery categories

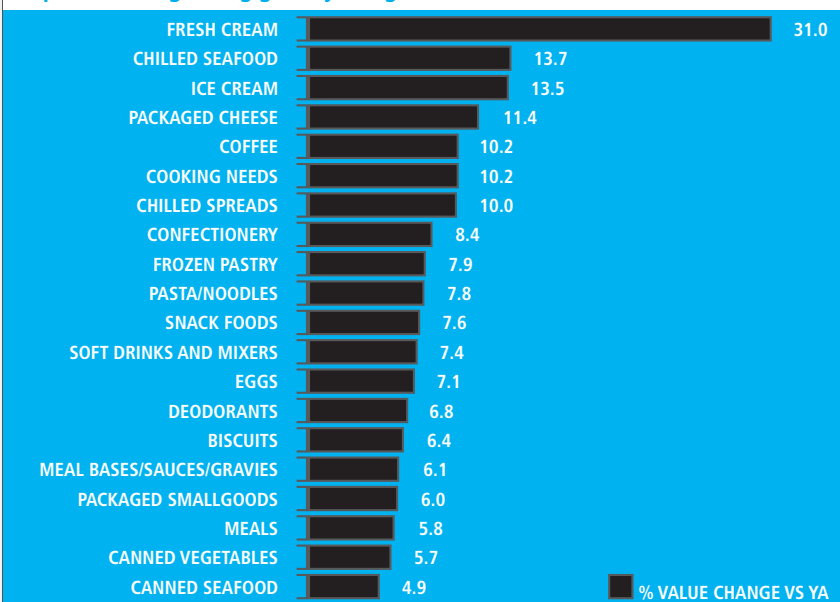


Chart 3.2: Fastest growing categories are affiliated with in-home entertainment, cook-from-scratch meals and more inspired/gourmet cooking

Source: Nielsen Homescan

Based on Top 50 biggest grocery categories (\$ value) and ranked by % value change vs YA - MAT 16/05/2009, Australia - all outlets

The problem with shopper marketing



Neil Sangster, Director – Analytic Consulting, Nielsen Pacific

My response to the client is usually to offer to save them a lot of money and simply give them the answer: 'They walk down the aisle with a basket or trolley and they put things in it!' This is not intended to be a facetious comment but rather to highlight that asking a general question often results in a general answer.

The reality is that shopping behaviour varies from the very simple – 'I just buy the one I always do' – to very complex – 'Because my mother didn't love me.' Even if we understand the very simple rationale under-pinning a purchase, this may not help us if shoppers are not buying our brand. What we do need to understand is why they always buy the other brand. Would they buy something else if it was better, cheaper or newer?

With this in mind, the first step of any shopper marketing strategy is to understand whether there is a problem. If there is, we need to identify what it is. Just

like a visit to the doctor, there needs to be a diagnosis before we can attempt to look for a cure. So what sort of symptoms should we be looking for? (Refer to Charts 4.1 and 4.2).

There are three key drivers of sales to be considered:

1. Shopping trips: Where are these consumers shopping?
2. Shopper conversion: What is the conversion rate in these retail outlets for the category and brand in question?
3. Spend: How much are these shoppers spending?

To understand these key drivers, we use the nationally representative Nielsen Homescan panel which gives us access to 10,000 shoppers every week.

This data is invaluable in allowing us to measure where Australian consumers shop and how often. It can also determine whether they buy various categories or brands when they are in those outlets, and what they pay for the items they purchase.

We can compare this information across channels, retailers and brands to identify where the problem areas are for our clients, and hence develop a targeted research program that focuses on the key issues. The result is the delivery of more cost-effective and actionable insights, without wasting time and money telling clients what they already know.

The following case example highlights how this unique shopper research works in practice. In a recent study, we identified that the problem for the client's brand was a declining conversion rate – particularly among households with teenagers.

By conducting interviews with these 'problem' households and combining the results with price and promotional modelling – we discovered that there were five key drivers behind the declining conversion rate:

1. Increasing competition from new entrants to the category;
2. Declining brand relevance;
3. Lower consumption as part of a meal;
4. A poor promotional program; and
5. Increasingly price sensitive shoppers in the category.

By understanding the causes of the problem we could then conduct more detailed analysis to recommend appropriate actions to remedy the issues. We proposed a range of activities targeted at one or more of the issues that we had identified:

- Increased price promotional activity to stay in shoppers' repertoire;
- Ensure appearance in catalogues is supported with display to increase in-store presence;
- More special events/sponsorship aimed at teens;
- Communicate how the brand fits with meal occasions;
- Innovate packaging to refresh and modernise the brand image;
- Improve distribution in non-grocery channels where teenagers shop; and
- Improve distribution of the key sub-brand that has high appeal to teenagers;

Once these actions were implemented we could then monitor the impact on sales (via store tests) and purchase behaviour (via matched Homescan panel analysis).

The problem with shopper marketing is identifying what the problem is. If there is a clear understanding of where the areas of weakness are, then we can focus on what needs to be done to improve our sales performance.

Conducting targeted shopper research collects the information we need to ultimately deliver the best strategy to maximise the return we get from our shopper marketing tactics.

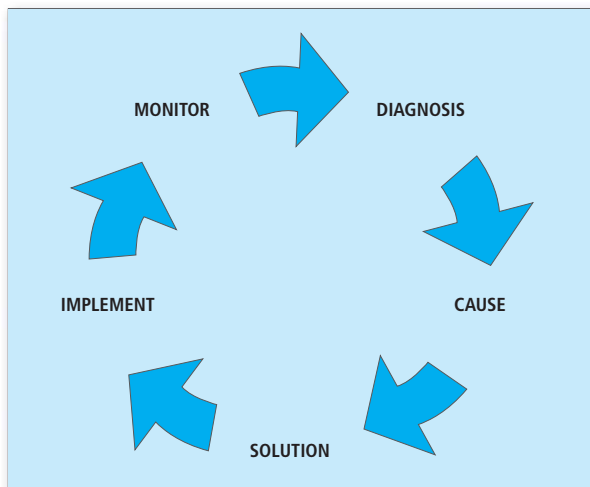


Chart 4.1: The Shopper Research Cycle - the problem must be diagnosed before a solution can be implemented

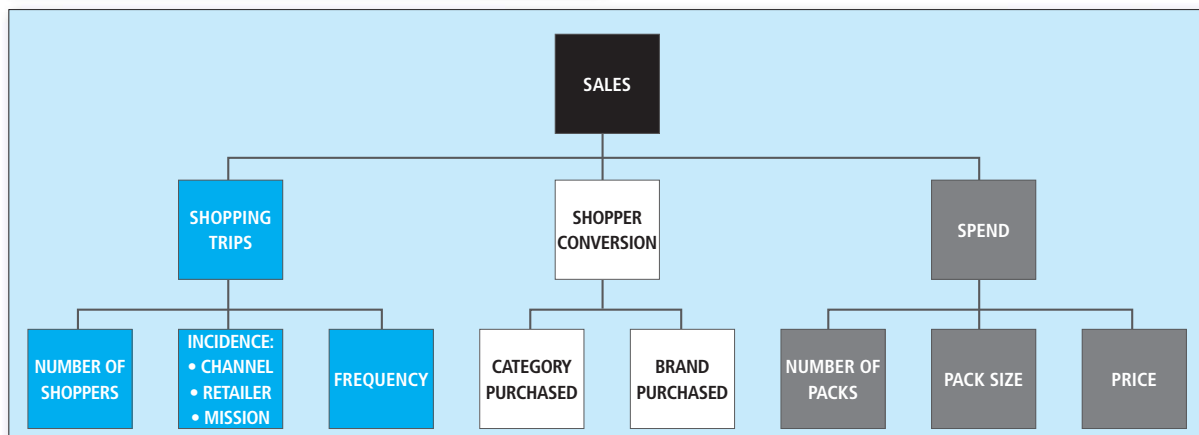


Chart 4.2: Shopper sales drivers: Shopping trips, shopper conversion and spend

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