



POINT OF VIEW

Playing to Win in the Rapidly Evolving Omnichannel Ecosystem

SEPTEMBER 2016



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Growth delivered.

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ABOUT THE PRACTICE

IRI Strategic Analytics helps manufacturers and retailers achieve high-impact business outcomes by determining which growth levers brands and categories should focus on to optimize results. With a unique combination of predictive analytical techniques, proprietary rapid modeling platforms, leading-edge automated solutions, a vast and granular CPG data set, and experienced analytics consulting talent, IRI Strategic Analytics uncovers hidden opportunities and insights that deliver growth to businesses.

ABOUT IRI GROWTH CONSULTING

IRI's Growth Consulting is one of the four capabilities within IRI Strategic Analytics, in addition to Revenue Growth Management, Marketing Productivity and Retail Productivity.

Executive Summary: Going for Growth

E-commerce is a critical component of a rapidly evolving omnichannel ecosystem.

Retailers continue to test multiple e-commerce offerings across markets and are beginning to scale the models with the most promise. Consumers, to greatly varying degrees, have tried a number of in-store and digital activities and are locking into a customized shopping routine that works for them. Technology-focused innovators have identified friction points between retailers, brands and shoppers and are creating solutions that enhance the omnichannel shopping value proposition.

Winning outsized share of the projected \$88 billion CPG e-commerce market will contribute to ultimate success in establishing brand leadership in the omnichannel universe.

IRI's perspective is that total CPG dollar sales via e-commerce will jump from \$11 billion in 2015 to \$88 billion in 2022. Manufacturers and retailers who are winning early have skillfully crafted integrated marketing and sales strategies for omnichannel growth because they understand that e-commerce is more than just a sales channel.

With limited historical data and scant resources, e-commerce can be intimidating to enter.

It can be overwhelming to know where to start. With limited historical data on e-commerce performance and growth, it can be scary to be first. There is also a lack of resources, as budgets are squeezed and e-commerce has still not captured the full attention of marketers.

Framework to win: It is key for CPG manufacturers to understand the future opportunity and identify the influential e-commerce marketing and sales tactics to develop a winning omnichannel strategy.

IRI's proprietary e-commerce category attribute model assesses how a category will perform to help manufacturers focus their sales efforts on the right brands in the right channels and retailers, and having a deep shopper understanding allows a manufacturer to invest in the optimal omnichannel touchpoints.

E-commerce is a critical component of a rapidly evolving omnichannel ecosystem.

Manufacturers and retailers alike continue to seek out new ways to excite and activate shoppers. The disruptive emergence of e-commerce in CPG is overturning traditional sales models and leaving marketers to reevaluate the way they do everything from store location and format to assortment and delivery.

The evolution is far from over. In fact, it has just begun.

Winning in CPG has always been a challenge, and now the rules of the game have fundamentally changed. CPG marketers no longer serve a few groups of shoppers, but rather innumerable microsegments, composed of individuals who want to believe that the manufacturer and retailer have catered a unique experience just for them. This is a playing field that demands a granular, accurate and actionable approach to marketing.

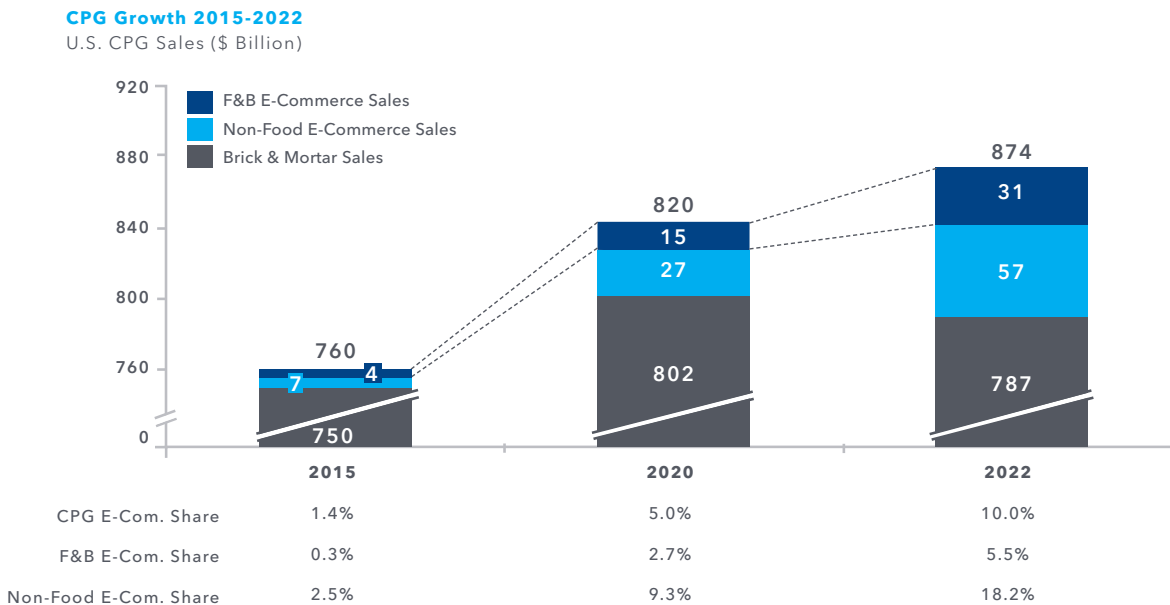
CPGs leading the way are engaging with shoppers at levels previously unseen, often establishing new rules of shopper engagement, and ultimately driving growth. The good news for retailers and manufacturers is that e-commerce retail is driving very rapid growth. There is tremendous opportunity to create new demand moments, develop more powerful and personal touchpoints, forge stronger shopper loyalty, and ultimately increase marketing program efficiency to drive sales and grow margin.

Winning outsized share of the projected \$88 billion CPG e-commerce market will contribute to ultimate success in establishing brand leadership in the omnichannel universe.

With multiple delivery models, including home shipment, home delivery and click and collect, e-commerce growth is rapidly accelerating. This critical marketplace will have a significant impact on the evolution of the nearly \$1 trillion CPG environment in the coming several years.

EXHIBIT 1

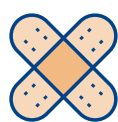
Expect rapid acceleration of CPG e-commerce sales.



IRI Growth Consulting Analysis

All areas of CPG are expecting growth in e-commerce during the next five years, with non-food growth outpacing food and beverage. IRI estimates the growth potential of total CPG e-commerce sales to increase from \$11 billion in 2015 to \$88 billion in 2022, with eight-to-tenfold growth across CPG aisles during that period (see exhibit 1). Capturing just one share point within this explosive market nets nearly \$1 billion. And, in many cases, those who act quickly will capitalize on an early-mover advantage and establish coveted stickiness for their brands as e-commerce evolves.

E-commerce growth will occur across departments as retailers continue to scale offerings and figure out what is impeding shopper adoption. IRI has developed an e-commerce category development model that projects the size of e-commerce across all CPG categories. The model is based on how a category ranks on attributes that are bellwethers in determining how quickly a category will shift to e-commerce. Example attributes are 'long tail of products' and 'purchase frequency.' If there is a long tail, shoppers are likely to go online to purchase those items because there is an endless aisle of options and consumers can easily shop these products without having to look across multiple physical stores. Meanwhile, if shoppers purchase frequently, they are likely to go online for a subscription service. All categories are ranked across 14 such attributes to determine their e-commerce propensity and ultimately their e-commerce size. Based on this model, it is clear that all categories/departments will experience a shift to e-commerce:



HEALTH AND BEAUTY:

\$14B (10%) in 2020;
\$30B (19%) in 2022



GENERAL MERCHANDISE:

\$10B (9%) in 2020;
\$22B (19%) in 2022



HOME CARE:

\$3B (11%) in 2020;
\$7B (22%) in 2022



GENERAL FOOD:

\$8B (4%) in 2020;
\$26B (7%) in 2022



BEVERAGE:

\$3B (4%) in 2020;
\$4B (6%) in 2022



FROZEN/REFRIG. FOOD:

\$3B (2%) in 2020;
\$4B (3%) in 2022



LIQUOR/TOBACCO:

\$2B (2%) in 2020;
\$2B (3%) in 2022

Early-mover opportunity

Manufacturers have moved into e-commerce by further establishing their presence on Amazon, creating partnerships with retailers who have e-commerce platforms and/or investing in their brand site capabilities. Those with an early-mover advantage have a stronger online presence that allows them to earn a higher position in search engine rankings.

Early movers gain the benefit of "test, learn and adapt," which strengthens their competitive advantage. By building knowledge of what drives shoppers online, what inhibits shoppers from understanding the e-commerce value proposition, and how to meet demand moments through omnichannel tactics with initial brands, early movers can refine their strategies and fortify their position in the e-commerce space. This knowledge is then systematically shared to the rest of the manufacturer's portfolio as all brands

begin to build out an omnichannel strategy. These feedback loops are absolutely critical given the existing knowledge gaps and the rapid channel evolution.

Ultimately, the true early-mover advantage is being first to the e-shopper. The number of digital touchpoints has exploded during the past several years. Shoppers moving to the digital world are wading through a multitude of touchpoints to identify the ones that work best for them and developing a customized shopping system. This system becomes very rigid across touchpoints, retailers and brands. While the cost of being first is large, it pales in comparison to being late and needing to disrupt a shopper's routine to get into the e-basket.

With limited historical data and scant resources on e-commerce, it can be intimidating to enter.

As there is limited historical data on e-commerce, it can be scary to be first. For many, the idea of plunging headfirst into the e-commerce pool can leave one safely ensconced in the poolside chair, waiting and watching to see who sinks and who swims. No true swim lane to success exists, as the yet-to-be-charted oceanic e-commerce universe is fresh and new and evolving minute by rapidly moving minute. Simply put, the e-commerce models are still works in progress, and yet to fully evolve.

For many categories, e-commerce difficulties are inherent. There is also a lack of resources, as e-commerce is still a lower priority for many and thus not a primary area of focus. As a brand can only focus on so much each year, e-commerce often falls by the wayside because there are other priorities and there is more institutional comfort and much less resistance to committing time and resources to clearer and more established areas of focus.

Additionally, the time, money and expertise needed to develop and execute an effective omnichannel strategy are significant. Rather than finding the in-house funding for the resources required to crest an ever-changing learning curve, brands are realizing that they need best-practice partners. The sheer volume of new data and speed of change make going it alone a losing proposition.

Still, the evolution of this sector is in nascent stages. Brands that don't want to miss the e-commerce boat must not treat it as an alternative channel. There are plenty of rewards remaining on the table for the next wave of brave and savvy players. The key to success is following a deliberate and well-thought-out plan of approach and execution.

Framework to win: New e-commerce attribute models allow CPGs to better understand their categories, so that they can deliver to shoppers what they want, when they want it and how they want it.

Omnichannel plans need to focus first and foremost on understanding how the shopper is participating and purchasing consumer packaged goods today. Shoppers are engaging in both in-store and e-commerce activities, and developing customized shopping routines that best meet their needs. In some instances, these routines are “pure play” online or brick-and-mortar. More often, though, today’s shoppers employ a hybrid of the two.



“Gatherer” online shoppers have shifted their stock-up trips online for the convenience of not going to the store. They are

buying balanced baskets across non-food

and food and beverage products every two weeks.

Gatherer shoppers typically live in cities and buy from home delivery retailers like Amazon Prime Now, Peapod and Instacart.



“Hunters” are online shoppers who engage with e-commerce on a monthly basis to save money while fulfilling specific needs.

Their main needs are baby care, laundry care and household necessities.



“Sharp Shooters” use e-commerce periodically, approximately five times per year, and in a very targeted fashion. Some sharp shooters seek

out e-commerce options to save money on expensive items, such as electric razors, skin care products and pet care products. They typically buy via Amazon or Walmart.com’s home shipment model. Others go online to discover new items that are not available in-store, such as vitamins and weight control products, generally buying through Amazon or a specialty home shipment model, like Vitacost.



“Scouts” are not buying online, but are still active in the omnichannel ecosystem.

While these shoppers prefer to make all of their CPG purchases in-store,

they go online to discover new items, research ingredients/flavors, and find deals and the best price. To serve this group of shoppers, manufacturers and retailers must have content management strategies that provide targeted messages via carefully selected online platforms and websites.

Of course, shoppers in each of these categories behave on a spectrum and these differences must be understood and delivered against to ensure long-term loyalty and growth. Manufacturers, retailers and tech innovators are aggressively experimenting with different e-commerce strategies to make meaningful connections with customers and leave powerful brand messages.

IRI outlines just a few examples of those who are winning by doing it right (see exhibit 2).

Retailers

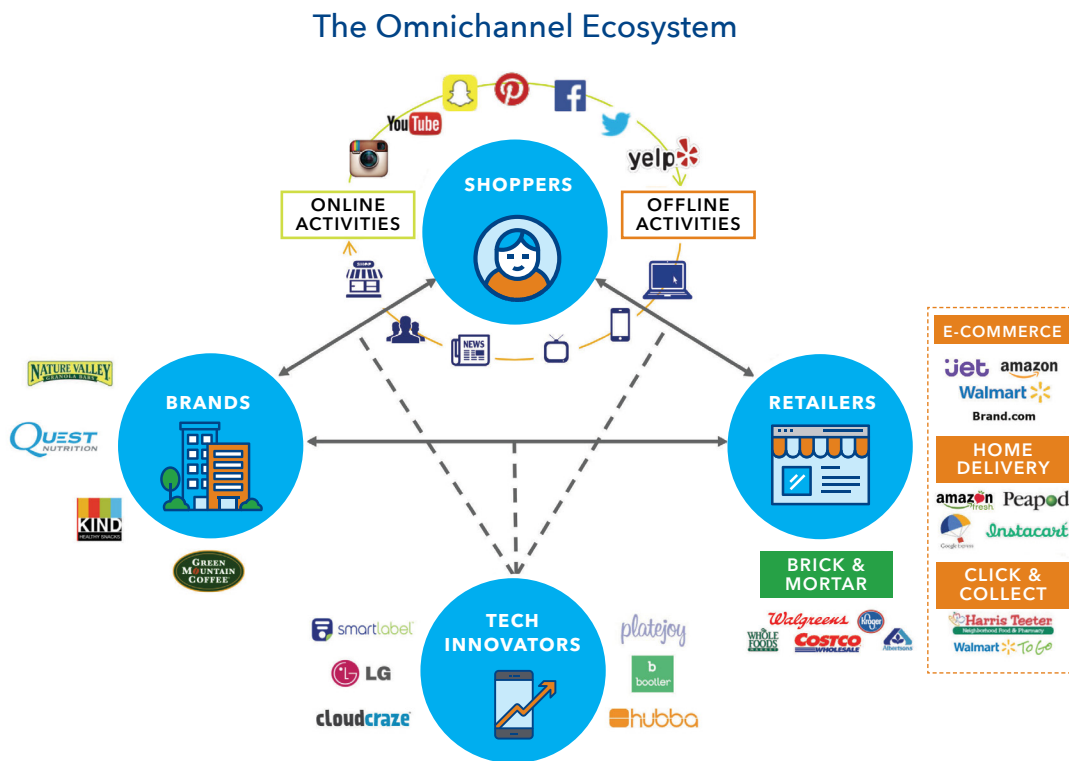
Retailers are testing offerings across models in multiple markets and scaling out those that exhibit the most promise.

Amazon, for example, has scaled home shipment with Prime and Prime Pantry for non-food and shelf-stable food and beverage and is testing time-window home delivery with AmazonFresh. The retailer has launched and is scaling immediate home delivery with Amazon Prime Now, is testing click and collect with Amazon Locker and has plans to launch two drive-up stores in Silicon Valley.

Walmart has scaled home shipment for non-food and shelf-stable food and beverage. The retailer is testing non-food and food and beverage home delivery. The retailer has also scaled click and collect for non-food and shelf-stable food and beverage, and is scaling fresh, refrigerated, and frozen click and collect across markets.

EXHIBIT 2

Online CPG marketers are experimenting with diverse and complex models to make connections with consumers across digital platforms.



Source: IRI Growth Consulting

Ahold is investing heavily in Peapod to scale out the home delivery company it purchased years ago. It has also been testing click and collect in suburban markets where Ahold/Peapod has developed a footprint to further leverage its warehouses.

Manufacturers

For manufacturers, online is really changing things up. Manufacturers now need to shift their delivery and inventory strategies to adequately account for the fact that more product is being bought online, while in some categories, less product is being purchased in an actual store. This has many implications for a manufacturer. For example, product offerings may require new packaging to account for online preferences, shipment and delivery.

In response, leading manufacturers are developing synchronized capabilities across marketing and sales to build offerings on e-commerce sites, drive shoppers to e-commerce sites, ensure integration and synergy between the online and offline value proposition and communication, and earn increased sales across in-store and e-commerce realms, through the build-drive-earn model.

Build - Drive - Earn

Build

Bob's Red Mill builds online presence through sponsored searches and strong product placement across e-tailers. Assortment is managed on the website and the Amazon brand store, with recipe recommendations in close proximity to point of purchase to augment the shopper journey experience and ultimately drive sales.

Drive

Method Home Cleaning expertly maintains its Amazon brand store and an easily navigable website, which provides relevant links to other e-tailers. The manufacturer provides detailed product information, including scent descriptions and ingredient explanations, and offers a robust assortment. Method grows its e-commerce presence with quality images that promote brand personality online across websites and social media.

Earn

Quest Bar has successfully synchronized in-store and e-commerce efforts, including big events like its "Cheat Clean" campaign, and "Quest Food Trucks," which have resulted in a sales increase of 77 percent year-over-year and a 48 percent share capture of the e-commerce snack bar market versus an 8 percent in-store share capture.

Technology innovators

The world is in the midst of the largest information explosion in history. Because of the sheer volume of information in front of people at any time—or any moment—it is imperative for CPG marketers and retailers to have a holistic understanding of how information is consumed, and how that translates to buying behaviors, product impressions and overall consumerism.

With so much big data available, manufacturers and retailers have trouble getting through it all. And if they get through it, does it make sense? Is it actionable? Opportunity exists for those who know how to accurately sift through conflicting information, how to identify the best knowledge and how to transform data into actionable insights.

In this light, technology innovators are working to create solutions that simplify interactions between retailers, manufacturers and shoppers.

The manufacturer - retailer relationship

Many manufacturers describe the effort required to provide updated information to all e-commerce retailers as “overwhelming.” Enter Hubba, a provider that has created a platform for manufacturers to provide all content management for their products in one place where all retailers can access the information across manufacturers.

The manufacturer - shopper relationship

Shoppers complain that they are bombarded with too much information, most of which is not relevant to their purchase behavior. Betaout, a marketing platform, works with brands to send targeted ads and coupons to customers based on search and purchase history. The result? Higher internet conversion rates, indicating increased satisfaction for both shoppers and brands.

The shopper - retailer relationship

Platejoy is a nutrition app that provides food recommendations, cooking tips, and recipes. Platejoy has partnered with Instacart, enabling users to quickly and easily follow through on their customized recommendation by ordering the indicated food via e-commerce.

Wisk.com has partnered with Peapod, enabling Peapod customers to add recipe ingredients to their shopping carts with the intention to simplify online shopping by making the shopper journey seamless.

With so many moving parts, the evolution of the omnichannel CPG world is a complicated dance with music that is constantly changing. Noted in IRI’s recent Leading Edge paper, “Personalization Journey: Leveraging Big Data to Drive Big Growth,” receiving messages from myriad sources has become second nature to consumers. It’s essential that these messages be current and in context at any given point in time. But, with so many different touchpoints, it is difficult to know who’s watching what, when they watch and where they watch.

The good news for CPG is that the possibilities are nearly endless to make meaningful connections with consumers and leave product and brand impressions. IRI leverages its groundbreaking Liquid Data™ platform (ILD) to provide the data integration, technology and real-time assessment capabilities that are required to make these connections.

Case Study

A large food and beverage manufacturer wanted to better understand the e-commerce impact on its business, accurately quantify the e-commerce opportunity and develop a comprehensive, winning e-commerce strategy. IRI worked with the manufacturer to implement an approach to focus on the brands with the largest potential size of prize at the optimal retailers.

As CPG e-commerce is very immature, current category performance is not the best indicator of future performance. To get a clear picture of the opportunity, IRI analyzed a list of attributes that help to determine the e-commerce propensity of each category in the client's portfolio.

IRI and the manufacturer used these attributes to calculate a category e-commerce propensity score that assisted in accurately projecting e-commerce growth for the manufacturer. Based on IRI modeling, the

click and collect to reach suburban/rural shoppers and home delivery to reach urban shoppers going forward, since the brand has high distribution nationwide.

IRI also worked with the manufacturer to identify how shoppers were interacting with the brand along key touchpoints. Through a survey and an in-store versus e-commerce product assessment, IRI identified that the shoppers on Amazon were looking for new products and flavors, while Walmart.com and Peapod shoppers wanted the same product, but wanted the convenience of not going to the store. With this knowledge, the brand was able to optimize its distribution strategy, pushing all SKUs on Amazon and using it as an "innovation playground," while pushing the top SKUs at Walmart.com and Peapod.

IRI also identified that versus a prior study where shoppers were very engaged with discovering new



manufacturer identified a \$400-450 million e-commerce opportunity and prioritized each brand within the portfolio to determine which brands to focus on first.

By predicting the evolution of the e-commerce models going forward IRI identified that while Amazon is the optimal e-tailer today, the brand will need to focus on

products and researching product characteristics, shoppers of this brand were no longer actively seeking information. Instead they were passively interacting with the brand through social media. This highlighted the importance of leveraging social platforms to interact with most loyal shoppers and the need to synchronize social posts with innovations launched on Amazon.

Conclusion

As the omnichannel ecosystem continues to evolve and e-commerce continues to establish a stronger position, it is of critical importance for retailers and manufacturers to prioritize the largest opportunities, seek truly granular, actionable insights on shopper behavior and the evolving omnichannel journey, and develop feedback loops to systematically share the omnichannel knowledge throughout the organization. IRI will continue to partner with retailers and manufacturers to provide these insights and ultimately win through outsized growth acceleration and share capture during the rapid evolution of the nearly \$1 trillion CPG omnichannel ecosystem.

RESOURCES

IRI's E-Commerce Category Attribute Model allows clients to project future e-commerce sales across brands and categories to prioritize the largest opportunities. This model is based on identifying the key attributes that drive e-commerce growth and weighting those attributes to rank all categories in terms of e-commerce propensity. Categories are sized based on e-commerce propensity and this is translated to brand-level opportunity.



About IRI

IRI is a leading provider of big data, predictive analytics and forward-looking insights that help CPG, OTC health care organizations, retailers and media companies to grow their businesses. With the largest repository of purchase, media, social, causal and loyalty data, all integrated on an on-demand cloud-based technology platform, IRI helps to guide its more than 5,000 clients around the world in their quests

to remain relentlessly relevant, capture market share, connect with consumers and deliver market-leading growth. A confluence of major external events—a revolution in consumer buying, big data coming into its own, advanced analytics and automated consumer activation—is leading to a seismic shift in drivers of success in all industries. Ensure your business can leverage data at www.iriworldwide.com.

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