Breakthrough Insights

Second Half 2010

Get Out of the Box to Earn Your Share

KANTAR RETAIL

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In the back half of 2010, we hear a lot of companies concerned with two big shares as they seek to build their strategies for 2011–2015—market share and share price. At Kantar Retail, we continue to try and pull this conversation closer to where work and strategy live—we are seeing companies that over-focus on the measures of success in this type of challenging environment lose focus on the long-term shifts in the marketplace. We also feel that it is important to pay respect to the economic conditions of the developed world; however, for those of us trying to deliver results in a 12–18 month time frame, we have hit a strange environmental condition—where short-term volatility is up but where most are not predicting either rapid recovery or deceleration. 1970s economists might have called this "stag-atility."

Our economic outlook for both the US and Europe projects an environment that is getting better but that by itself will provide very little forward momentum—any growth in this landscape will need to be earned. An interesting story comes from data reported in November about the US economy: retail sales increased by a surprisingly high amount, a $4 billion increase from a median sales rate of $56.3 billion per month from March–September to $60.3 billion in October. Of that increase, about 20% of it is attributable to one medium-sized company—Chrysler Corporation (with a 37% unit sales increase over October 2009) and over half of that comes from one item—the highly successful re-launch of the Jeep Grand Cherokee. The key to this little story is that growth will go to the highly **skilled** operators, who understand how to reach consumers with newly constructed value propositions. The Jeep story reveals that in light and shifting winds, the skilled and smart crew often beats the large and strong one.

We believe these skills reside in the ability to answer five key questions with five key "share" driving strategies—each one of which is highlighted in this Breakthrough Insights compilation:

Share of Real Growth—or, where will we grow? In addition to the economic overview which outlines both the opportunities and challenges of the US/European macro landscape, we take a quick look at the Chinese marketplace to understand the growth potential of the market that will dominate retail growth in the 2010s. This article is highlighted by our first-cut 2020 China channel forecast in which we see a future where China's hypermarket and convenience channels are both bigger than those channels are today in the US, Japan, and Europe put together. The challenge that presents to an organization is one of flexibility—how do we build an organization that can be ready for the different and markedly less comfortable places growth will come from in the 2010s?

At the same time, there is still real growth to be earned even in the most challenging of environments. Our overview of shopper behavior and trading conditions in the US home improvement marketplace highlights that and is a great set-up for the other four questions/capabilities—all of which will be required to capitalize on those opportunities.

Share of Wallet—or how much do shoppers spend with a retailer compared with what they could spend? This conversation moves us squarely to Arkansas where our "Getting It Right" series focuses on the issues Walmart encountered with its Project Impact initiatives in the US. Our historical perspective is included for two reasons, apart from pointing out that we, like many, predicted that Walmart's swing away from some of its foundational equities was going to cause shopper disruption and confusion. First and foremost is to highlight the pieces of Project Impact that were successful—and there were many. Walmart improved its free cash flow (as we predicted) and gained shoppers who were turned off by "un-impacted" stores. This look backwards is important to remember that an "over-correction" by Walmart could cause them to reverse many of these gains. The second reason is even simpler and more important—the business problem Walmart is trying to solve with Project Impact (the need for returns to grow in the US to cover its lower-return International growth) still exists; any reversal from their strategies still has to solve this problem. Our Q2 review of Walmart's performance discusses that balancing act.

Sam's Club is the other Share of Wallet case study in this issue as the retailer seeks to expand member relevance in key categories. There are good things going on here. Sam's is making choices around the categories where it wants to win and using analytics to more deeply understand their members' wallets and spending behavior. With that, though, the Sam's business challenge remains the same. The rate of return on the Sam's business is significantly lower than the Walmart US stores business so Sam's has to find a way to grow share that brings new dollars to Walmart corporately.

Share of Decision—or why are shoppers choosing certain outlets and brands? In particular, we like to focus this conversation on the new moments of truth being created in a multi-channel communication world. The "First Moment of Truth" is a useful crystallizing framework, but it runs the risk of being more limiting than helpful today. Why? The first moment of truth concept (that the shopper's first major decision about a brand is at the shelf) has always been a difficult one for retailers to swallow; they appreciated the insights around that brought to them first by P&G and then by others but always knew that their first moment of truth is somewhere significantly different—usually when a shopper is leaving the house, in the car, or making out a shopping list and trying to figure out which outlet to shop. Today, entities such as Google (as well as many suppliers) have started embracing this notion of the "Zero Moment of Truth" to try and capture shoppers wherever their points of decision are. Increasingly these points of decision are being digitally influenced. As part of our enhanced coverage of digital and social media we look at how US food, drug, and mass retailers are expanding their social media presence, and what that means for retailers and the suppliers that sell through them. In addition, our China conversation quickly looks at Taobao, the largest and most influential online retail site most of you have never heard of.

Share of Solution—or what products and services can I offer to broaden/deepen my relationship with the shopper? Share of solution takes us in two separate directions as far as retailers go. First and foremost is the idea that retailers can replace solutions that were heretofore the provenance of their suppliers. Own label, private brands, house brands; whatever the term, it is clear that retailers are continuing to accelerate their private label programs in most "developed" retail markets around the world. Suppliers have historically viewed this as solely a zero-sum game: as the retailer's brand improves, mine commoditizes. We would encourage suppliers to think about this problem a little differently in the future—in particular as it relates to differentiated retailers. The only alternative to differentiated retailers are undifferentiated retailers, and markets where my largest "conventional" customers struggle for resonance (Germany, for instance) are not particularly attractive markets for either retailers or suppliers from a pure profit perspective. To paraphrase Winston Churchill on democracy, differentiated retailers are the worst customers you can have, apart from every other kind.

That being said, private label continues to represent a robust source of conversation between suppliers and retailers. The evolution of CVS, one of the largest US drug chains, has prompted some charged conversations on the topic between it and key supplier partners. But in 2010, CVS is looking to expand its solution the second way retailers can—by meeting new needs that it was meeting either ineffectively before or not at all. As CVS seeks to improve its convenience offer and store clustering initiatives, it will create significant opportunities for suppliers to grow with them, provided they can see past the challenges of a retailer seeking to expand its private label program.

Another retailer that continues to redefine its solution to shoppers is Metro—in this case by going back to the future to some degree and enhancing its origins as a wholesale cash and carry business. Two key initiatives are profiled: its small, wholesale-emphasized format (Makro Punkt in Poland) as well as its answer to Auchan's Chronodrive (Metro Drive) in France. Cash and carry continues to be an interesting global battleground format because of its flexibility—ranging as everything from a high-end retail environment in post-modern retail markets (i.e., Costco) to one of the earliest pioneer formats in emerging modern trade environments (Pakistan and Vietnam, for example).

Share of Engagement—how are retailers cutting through the clutter to connect? If differentiated retailers are the only players in brick and mortar buildings that will grow, how will this growth take place? Great retail brands are created in-store. Our favorite example of that always is the Costco idea—a 90% renewal rate on a "pay-to-use" proposition with no formal marketing at all. Engagement through TV, social media, and online for retailers is terrific but if the stores do not live up to the idea (i.e., if they are not the physical manifestation of that image), the retailer's brand falls apart. That is why a very sensible answer to "what is the best shopper marketing program I can have?" might be clean up your stores! Especially in a digital world, a negative experience can move around the globe at terrifying speed. United Airlines found this when they broke a songwriter's guitar. His song ("United Breaks Guitars") has as of today gathered more than 9.5 million YouTube views.

But accentuating the positive also is an engagement strategy, and here we look at Carrefour's hypermarket reinvention tests in France. Carrefour desperately needs to re-engage shoppers in an experience that is familiar to them but becoming less relevant as France's population ages and a younger generation, raised digital, has a less compelling need for a "store where you can get everything." That store to them is their laptop or mobile phone. How Carrefour and other large store operators reconnect shoppers to these spaces will be one of the great retailer/supplier challenges for the next five years.

Finally, over the next several months the two legacy platforms Kantar Retail has used to distribute insights to our clients (the Retail Forward Intelligence System and MVI-Insights) are being combined into one global platform: Kantar Retail IQ. We hope this integration simplifies your knowledge searches and deepens and enhances your understanding of the rapidly changing retail world. Please feel free to contact us with any questions about this integration ... and happy winter holidays to you!

Bryan Gildenberg, Chief Knowledge Officer

What's Happening at Walmart?

Q2 Call Indicates Shift from Project Impact

By Robin Sherk / Originally published on August 27, 2010

Walmart's Q2 performance call for the period ended July 31, 2010, marked a distinct shift. Several merchandising and operational elements of Project Impact, the retailer's go-to-market strategy, are effectively being dismantled. This briefing examines these changes and discusses the implications for suppliers.

Walmart US's strategic course is in a state of flux. Its comparable-store sales (comps) have fallen for the fifth consecutive quarter, and management is aggressively responding. Chief Executive Mike Duke directed that its "top priority" is to grow sales and traffic. Responding to this directive, Walmart US's new leader, Bill Simon, began discussion of the second quarter's sales performance by asserting that Walmart has "set out a clear direction for change."

Changes Underway

The efforts to achieve top-line growth indicate distinct shifts from Walmart's strategy under Project Impact, namely:

- **"We plan to win in every category,"** Simon explained, thus indicating that they are no longer employing the tiered approach of "Win, Play, Show" across categories. Walmart's assortment breadth across categories is now the focus, with "thousands" of SKUs having been returned. Simon's statement represents the most substantial course correction underway.

- **Action Alley refilled** – Effectively abandoning the removal of pallets under the "clean/clear store" efforts of 2009 and early 2010, Walmart is bringing pallets back across the box to encourage incremental and impulse purchases.
- **National brands re-emphasized** – Reducing shelf and promotional space of its previously touted consumables labels such as Great Value, Walmart is shifting focus to drive shopper appeals via national brands. As Simon asserted in March 2010, "We are a house of brands. We prefer to sell national brands because that's how we can differentiate ourselves."
- **Consistent price messages** – Dissatisfied with the lift generated by its "deep Rollback" promotions in May and June 2010, the retailer is now re-emphasizing its traditional "everyday low price" (EDLP) position and vendor-aligned Rollbacks across categories.
- **Diminished marketing** – Simon explained that Walmart has "changed our advertising strategy," effectively cutting spending to be "back in line with historical trends."
- **Store autonomy returned** – Stepping back from strict, headquarter-driven standardization, Simon explained that "store managers now have more autonomy to make decisions on what's right for their customers."
- **Increased vendor collaboration** – Shifting from self-reliant planning, Simon outlined that they're increasingly "leveraging our suppliers' capabilities to help us drive impactful features," such as in-store planning and assortment decisions.

For a visual overview of some of these changes, see Figure 1.

Perspective on Walmart's Course Corrections

Not everything under the former strategy has been abandoned.

The retailer's overarching financial goals to drive "Growth," "Leverage," and "Returns" are still in place. Moreover, Simon asserted that the "final group of our 550 store remodels, scheduled for this year, are currently underway." Improving overall store navigation, drawing attention to particular departments for emphasis, and heightening its in-store presentation remain priorities as well. Likewise, Walmart continues to assert its overarching brand message that it "helps people save money so that they can live better" and its commitment to sustainability initiatives.

As Duke explained, Walmart US's management is, "moving rapidly to build on the initiatives that worked and adjusting those that have not worked." Apparently, its overarching attunement to building rapport with the shopper will remain, but its efforts to vary assortment by category and manipulate price positions to drive efficiencies will not.

"We are a house of brands. We prefer to sell national brands because that's how we can differentiate ourselves."

- Bill Simon
  President and CEO, Walmart US

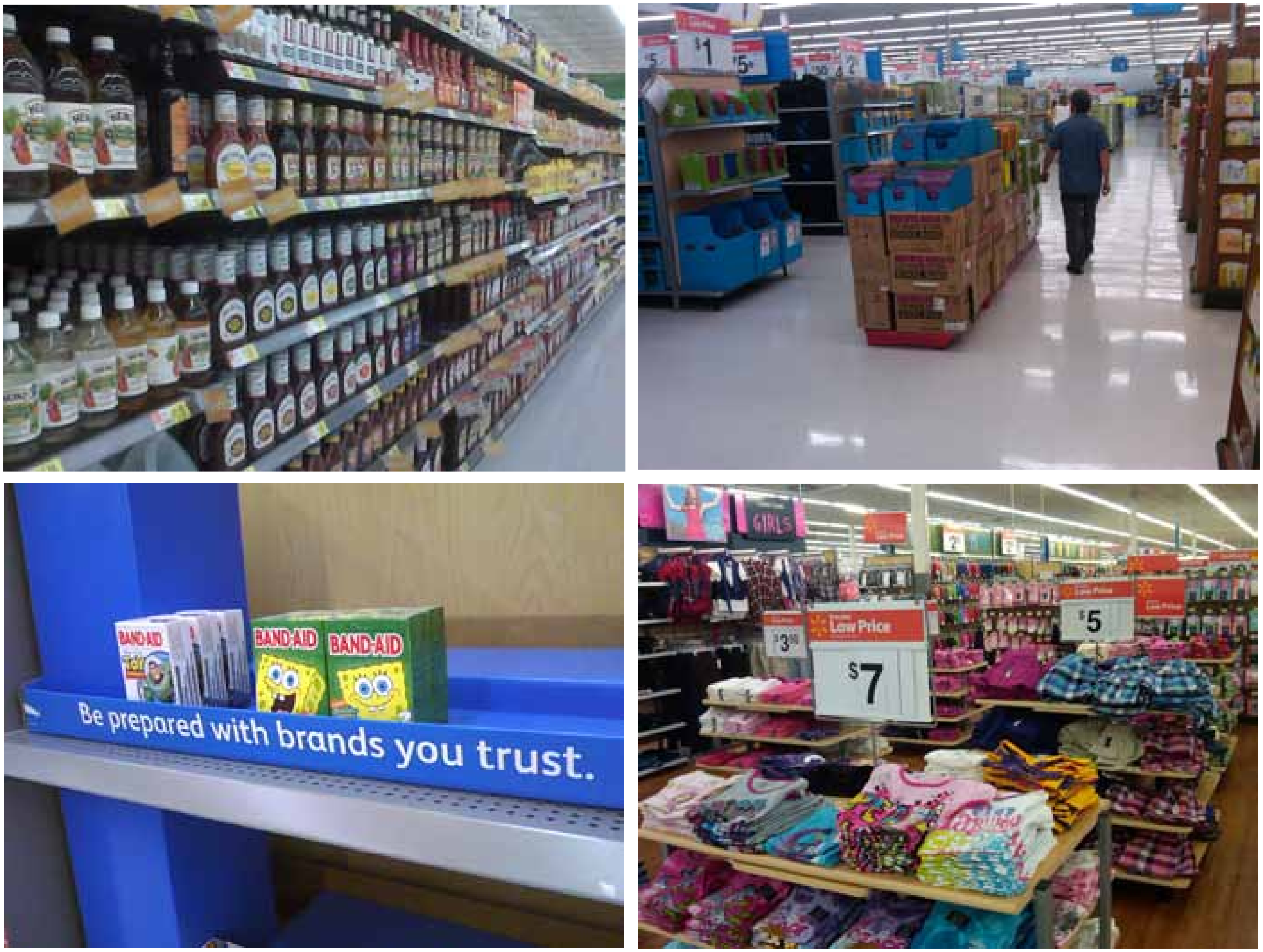

Figure 1: Visual Overview of Changes Underway
Source: Kantar Retail store visits and analysis

Walmart needs to be careful not to swing the pendulum back too far and return to past practices that weren't working for them before launching Project Impact.

These new initiatives look focused on the immediate, top-line concerns.

When Simon said, "Let's look forward" in the call, he cited hopes for a fourth-quarter sales recovery. He left long-term plans around efforts such as format expansions largely unmentioned, except to say that several officials from urban markets have contacted the retailer about exploring opportunities in light of Walmart's success in Chicago, Illinois. Instead, the retailer is apparently centered on reverting to its time-honored tactics of widened assortment focused on national brands, simplified price positioning, and tapered messaging.

"The good old days weren't always good ..."

With apologies to Billy Joel, Walmart needs to be careful not to swing the pendulum back too far and return to past practices that weren't working for them before launching Project Impact. Indeed, some of its recent merchandising efforts run the risk of recreating the very problems that Project Impact was intended to solve (e.g., cluttered aisles, lack of clarity of assortment, no appeal beyond price, etc.).

Additional Considerations

Surely, the broader question is whether Walmart's efforts will position it for lasting success. Putting pallets back everywhere may reclutter stores, potentially compromising the "fast" and "clean" shopping experience Walmart had set out to build under Project Impact. (Kantar Retail will be monitoring the effects of increased pallets closely, as it could diminish traffic, especially of middle-income shoppers.)

Moreover, reverting back to selling as much of everything possible complicates the stores' ability to develop their efficiencies and drive returns—another one of the key motives behind launching Project Impact. Clearly, a balance is needed. Management initiated Project Impact to develop sustained profitability in the face of stagnating store performance, mounting operating expenses, inconsistent store experiences, and lack of engagement with shoppers. These are overarching objectives that the retailer would abandon to its peril.

Kantar Retail Point of View

Supplier Implications

As Walmart shifts its approach, suppliers are advised to consider the implications both for shoppers' reactions as well as their own evolving engagement strategy with the retailer.

Walmart Shift	Shopper Implication	Supplier Implication
Every category is now a "Win," bringing back thousands of branded SKUs to the store	The greater variety and breadth of focus should reinvigorate Walmart's reputation as a one-stop shop.	Your competition is poised to intensify, as other lines and brands are added. This is particularly true if you were previously in a "Play" or "Show" category. Examine which SKUs in your portfolio are best-suited for re-introduction: Be prepared to say "no" for ill-suited candidates.
Re-introduction of pallets to the store, particularly in Action Alley	Potentially negative perceptions of store cleanliness as aisles are now filled. Diminished sightlines and impeded aisle navigation to "cross the box" and shop in differing departments.	Evaluate whether the store becomes too cluttered to effectively develop communication with your shoppers. Consider cross promotions to encourage cross-department shopping, as browsing across the box may be impeded.
Increased vendor collaboration—as well as diminished emphasis on its own marketing and private labels	The stores' appeal is set to focus less on the stores themselves, turning the shoppers' focus to the brands they're buying. Awareness and consideration of Walmart may diminish, as the retailer's advertising is presented less frequently.	Anticipate increased opportunities to collaborate with Walmart and test new approaches and solutions. Recognize that emphasis of your brands is of higher interest. Accordingly, be sure to propose in-store appeals and promotions. Continue to leverage shopper insights to direct and develop recommendations as Walmart realizes that it needs your support to better reach its shoppers.
Simplified price positioning, heightening pressure on the productivity loop	Shoppers may feel reassured that Walmart consistently offers "Everyday Low Prices."	Recognize that pressure on your own supply chain efficiencies and processes are poised to intensify. Anticipate that Walmart will increasingly ask for promotional investments in price over other marketing opportunities.
Heightened store autonomy, allowing local managers to make decisions	Avid shoppers may feel that their local store appears more interested in their feedback and more responsive to requests. Customers may also notice more variability in store experiences, as managers may call standards for themselves.	Consider how this dynamic may impact in-store execution of various programs and promotions, recognizing that adherence and consistency may be impacted. Explore opportunities to develop local store appeals, as such propositions may resonate with area managers.

Reinventing Sam's Club

A Mid-Year Assessment of Its Progression

By Robin Sherk / Originally published on September 8, 2010

Sam's Club provided a mid-year status update on its performance with the announcement of its Q2 performance on August 17, 2010. Chief Executive Brian Cornell was generally "pleased" with the underlying sales results and progress against stated initiatives throughout the period. Key financial highlights for Q2 were as follows:

- **Solid comparable-store sales (comps) growth** of 1.0% (excluding fuel) came up at the top of its guidance.
- **Managing costs is still an overarching challenge.** Expenses rose 2.7% ahead of the club's 0.6% sales growth (excluding fuel).
- **Driving the top line is the focal point.** Cornell explained, "Sam's Club team is keenly focused on top-line sales growth, driving comps, and productivity."

The club sees opportunity and is working to improve these results. To do this, Cornell reasserted that their "strategy remains focused." Its comprehensive go-to-market approach, announced in October 2009, is now in the process of implementation. Further, Cornell advised they remain focused on "making the right merchandise choices, enhancing the shopping experience, and engaging our members." To assess Sam's Club performance under these new efforts, the following three sections detail the status of its merchandise, operational, and marketing efforts.

Merchandise: "Wow, Excite, Everyday, Simple Solutions"

Overall, Sam's Club merchandise approach is moving ahead. Under its current strategy, the club is shifting to a portfolio focus—selecting particularly relevant, productive, and differentiating categories to develop. Broadly speaking, it appears that the assortment is resonating as ticket increased this quarter for both Business and Advantage members. Sales in focus areas of Fresh and Health & Wellness reported solid results. (Though Cornell also noted an "uptick" in some discretionary areas: Jewelry, Mattresses, Domestics, and Housewares.) This shift in sales mix was attributed to causing the 15 basis point (bp) gain in gross margin, aiding the club's profitability.

Sam's Club is actively bolstering its assortment in several focus areas:

- **Fresh Grocery** – Expanding its fresh cheese assortment, over a dozen artisan varieties will be introduced to more than 150 clubs by the end of this fall season. Sam's also announced efforts to strengthen the standards for its beef, implementing new protocols that will go in effect June 2011.
- **Health & Wellness** – Adding Sophyto's anti-aging skin care collection, a certified organic treatment aimed to women, furthered its offering in this area. This is the latest in a series of new sought-after brands making their debut in the club.

In addition to new membership appeals, Sam's Club is bolstering its "Savings Made Simple" promise to build its connection with existing members.

- **Electronics** – Enhancing by allowing live demos of IPTVs and adding new items such as the iPhone4.

Such efforts are expected to continue. Cornell explained they have "stepped up our efforts to bring the most sought-after brands into our clubs sooner and more often." Careful to avoid veering too far in the category-framework approach, Sam's has not dramatically decreased inventory level as it seeks to refine and target its offering.

On the contrary, Q2 inventory levels increased 80 bp, slightly faster than its sales growth of 60 bp. Cornell pointed out that they "continue to be mindful of maintaining the right balance between solid inventory management and ensuring we have the right products." With this tempered approach, Kantar Retail expects Sam's Club to further the implementation of its strategy, which will begin to manifest itself more overtly in the buildings and more consistently influence conversations and dealings with buyers.

Marketing: "Savings Made Simple"

Sam's Club membership performance continues to show improvement, though opportunity remains for attracting new members and strengthening retention rates. On a favorable note, membership income increased 80 bp over last year. This gain was attributed to Plus membership upgrades, as this platform "continues to show good momentum."

Plus memberships have showed solid results since the launch of the eValues coupon program in September 2009. By January 2010 the club reported a 43% year-over-year increase in Plus membership sign-ups. The retailer continues to bolster the offer: In June 2010 Sam's Club furthered the platform for Advantage Plus members by extending access to early shopping hours.

Moreover, Sam's Club offered the following promotions to garner new members and upgrades to Plus membership:

- **eValues Savings Celebration Event** – Running September 1–6, 2010, the promotion encouraged Plus member sign-ups by allowing all members to receive USD 300 worth of eValues savings.
- **Nationwide Open House** – From August 6–8, 2010, the club opened for guest trial shopping without the customary 10% service fee.
- **Fractional Business Membership Offer** – A 15-week membership for USD 15 was offered to small businesses from May 15 to June 6, 2010.

In addition to new membership appeals, Sam's Club is bolstering its "Savings Made Simple" promise to build its connection with existing members. In-club appeals rally around this message to build a consistent, convenient, and value-driven proposition. Likewise, Sam's marketing material works to reinforce its brand theme.

The club also launched the Giving Made Simple campaign in April 2010 to let members choose how Sam's would donate USD 4 million to educational and entrepreneurial charities. This effectively

With no formal rollout timetable announced, Sam's Club is moving cautiously forward to strengthen the design of its format.

leveraged the brand message and engaged its base to create a meaningful impact on the community. In this way, the retailer is working to help members take pride in belonging to Sam's Club.

Despite such efforts, gaining Business add-on members is still a challenge. Leadership attributed the difficulties to the challenging circumstances facing many small business owners. To help address their concerns, Sam's Club launched a pilot in July 2010 to offer USD 5,000–USD 25,000 loans to small-business owners. Cornell noted that they were "pleased with the positive response" to this program. Anticipate that Sam's Club will further its appeals for Business membership.

Broadly speaking, Sam's Club is demonstrating a willingness to both develop and expand its marketing efforts. Commenting on the recent Open House promotion, Cornell explained that they were, "very pleased with the results from both the sales and membership perspective." This test was unique because instead of a fractional membership offer, anyone could shop the club without its fee. Looking forward, Cornell asserted that they will "continue to look for innovative ways to drive traffic, renewals, and upgrades."

Operations: "Project Portfolio"

By the end of Q2, Sam's Club had remodeled 33 clubs into the "pure Project Portfolio" design. These clubs add a center aisle and have expanded Fresh and Health & Wellness sections. There are 70 additional clubs, or about 12% of its base, scheduled for remodeling with "various aspects" of the Project Portfolio elements. This shows that the retailer continues to refine its approach. Cornell explained that they are "pleased with the direction of the test and are making adjustments as we move forward." With no formal rollout timetable announced, Sam's Club is moving cautiously forward to strengthen the design of its format.

Sam's Club also is improving the in-club experience by focusing on service and presentation:

- **Tastes and Tips** – In early 2010, Sam's Club hired Shopper Events to enhance its in-club sampling. This new program features standardized demonstration tables, uniforms, and marketing materials to provide members advice and offer a consistent experience.
- **In-Club WiFi Access** – In August 2010, plans to add WiFi access within the club by the end of the year were announced. This would enable members' use of smartphones during their trip, thus bolstering its convenience and service.

- **Pallet Presentation** – Throughout 2010, Kantar Retail club checks have noted sustained improvements in quality, packaging, placement, and presentation of product within the club. In effect, this develops a more appealing presentation for members.

Developing the club's efficiencies also is a strategic priority. Its near-term efforts, such as its "Five S" of "sort, straighten, sanitize, standardize, and sustain," are expected to reduce labor hours 6–8% over the next five years. The club appears to be making progress toward this goal: Its Q2 sales per labor hour increased 2.7% year over year, and units per labor hour increased 1.4% (though the allowance of early hours to Advantage Plus Members likely bolstered its performance.)

However, expenses continued to pose a challenge in Q2 as they rose faster than sales growth. Management attributed its rise to credit card interchange fees, remodels, and marketing costs. While Cornell stated he is "very pleased with [Sam's] progress," better control of costs is needed to build sustainable profitability.

Going forward, Sam's management is positioned to further build its in-club experience and efficiencies. While Sam's EVP of Operations, Ignacio (Nacho) Perez retired in August 2010, his replacement, Todd Harbaugh, is a 20-year veteran of the retailer. Kantar Retail expects him to maintain Sam's strategic course. Furthermore, Sam's reorganized in the spring of 2010 to add three divisional leaders to head up its presence in the western, southeastern, and northeastern United States. This move should support the club's ability to both develop local appeals and oversee process execution.

Kantar Retail Point of View

Implementation of Sam's Club new strategy is moving incrementally forward.

The retailer's efforts appear cautious: Club remodels are slowly rolling out; novel marketing appeals are trialed one at a time; and new in-club services are progressively being announced. This approach appears thoughtful and pragmatic.

Sam's Club is openly developing its understanding of members, consumers, and the marketplace to further its position.

Sam's strategy is based on leveraging insights. In April 2010, Cornell detailed to investors that "insight-driven innovation will continue to drive growth, allow us to leverage our business, and improve returns going forward." These goals for growth, leverage, and returns also are the overarching objectives that its parent company Walmart holds.

Also of note, such extensive use of research is new for the retailer, as Cornell went on in detail: "Most of the innovation, most of the new initiatives ... are really driven through the insights that we've gained over the last year."

As senior leadership looks for guidance, they see the value of suppliers' capabilities. The retailer is currently developing Joint Business Planning processes to share with suppliers and better leverage insights in an effort to further growth. As such, Sam's Club is conscientiously positioning itself for long-term strength as it works to attain both sustained sales and efficiencies.

Supplier Implications

Key implications for suppliers calling on Sam's Club include:

Sam's Club Shift	Supplier Implication
Sam's Club is focused on leveraging insights and working with suppliers to develop is strategy.	Examine your capabilities internally and articulate where your strengths match Sam's needs. Carefully consider the benefits and risks for sharing insights.
Select category emphasis remains, with food, health & wellness, and electronics of particular interest to "Wow" members.	Communicate the ongoing shifts internally, noting that these plans are moving forward despite strategic category management changes happening at Walmart. Understand where your portfolio falls within this strategy, outlining opportunity for SKUs or potential for cutbacks.
The "Savings Made Simple" brand promise continues to integrate within the club's proposition, building rapport with existing members.	Explore ways to effectively align your brand with Sam's overarching message. Research new opportunities for co-promotions and determine which are best suited for your needs.
Sam's Club continues to test unique promotions to draw new members and upgrade current members.	Consider co-developing innovative means to attract and retain members. Watch Plus members' satisfaction and retention, as the eValues program meant to boost its appeal reaches its one-year anniversary in early September 2010.
Remodeling furthered with rollout of 33 Project Portfolio clubs at end of Q2. At the same time, Sam's also is exploring variations.	Identify how Sam's various test designs alter the adjacencies and space in your department, planning promotions and further sales plans accordingly. Evaluate how your pallet configuration could be enhanced to boost its in-club presentation, in light of Sam's efforts to boost its club's appeal.

CVS/Pharmacy: A Shifting Growth Paradigm

By Brendan Langan & Lauren Story / Originally published on July 30, 2010

In this article Kantar Retail begins to answer "What's Next?" for CVS, as the retailer commits to a more holistic approach to driving top- and bottom-line growth in the absence of further large-scale domestic acquisitions in the drugstore space. The article provides insight into the steps CVS is taking to balance its historical focus on growing share of wallet with a renewed energy around gaining greater share of relevance with shoppers and driving trips through store clustering and an expanded consumables offering. This shift comes in advance of an increased foray into fresh by myriad competitors including, but not limited, to Walgreens.

CVS Stores by State

1999 (Operated 4,098 Stores) **2009 (Operated 7,025 Stores)**

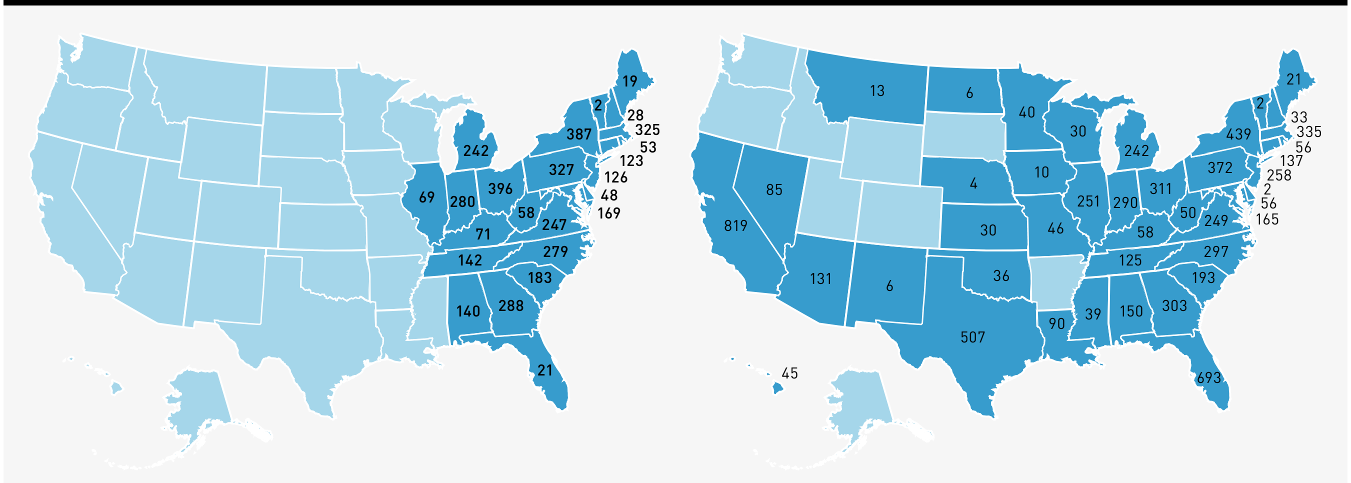

Figure 1 / Source: Company reports, Kantar Retail analysis

Growth 1.0: Share of Market

For more than two decades, CVS/pharmacy has pursued a three-legged expansion strategy: entering new markets organically and through a series of large-scale acquisitions (e.g., Revco, Eckerd, Osco and Sav-on, Longs), adding stores within existing markets, and relocating older in-line stores to more convenient, freestanding locations (Figure 1).

This strategy has successfully transformed the enterprise from a few hundred stores in New England to the nation's second-largest drugstore chain, with annual retail sales in excess of USD 55 billion (USD 18 billion front-store sales) and critical scale and presence in strategic markets throughout the country.

Today, CVS boasts locations within three miles of 75% of the population—serving over 5 million customers each day at its more than 7,000 retail drugstores in 41 states, Puerto Rico, and the District of Columbia.

Growth 2.0: Share of Wallet

The manner and rate in which CVS expanded resulted in considerable operational complexity across a portfolio of geographic markets (from Los Angeles, California to Boston, Massachusetts); store footprints (ranging in size from a few thousand to well over 25,000 sq ft); merchandise mix and sales volumes; and an increasingly diverse customer base. Managing this level of complexity forced CVS to make a series of tradeoffs, imposing a highly centralized model to minimize operational variability and provide a consistent platform to market to its chosen customer segments (Caroline, Vanessa, and Sophie).

This focus was personified by the development and introduction of the "LIFE" store design in Poughkeepsie, New York in 2003, a store that was designed with its core shopper (females) in mind and centered on simplifying the experience. The store featured a radically revamped layout and drive aisle to the pharmacy, lower shelf heights, a reduced SKU assortment that resulted in an improved perceived assortment, enhanced signage and way finding, and a clear focus on health and beauty with "Beauty on the Door." Ironically, these are many of the changes that peer Walgreens had resisted but is now incorporating into remodeled Customer Centric Retailing (CCR) stores.

Today, over 60% of CVS stores feature the LIFE design (Figure 2). This design was critical to CVS's success on three fronts:

1. It helped CVS successfully enter and establish a strong brand identity in new markets, setting the "CVSeasy" expectation for shoppers across a diverse portfolio of acquired stores and markets.

Figure 2: Life Store Design / Source: Kantar Retail store visit

2. It provided a consistent environment for CVS's team of skilled merchants and marketers to successfully bring the brand to life.
3. It provided a clear point of differentiation in the market and a platform from which to grow share of wallet with its best customers.

Growth 3.0: Share of Relevance

This historical focus, while clearly successful, has limited CVS's ability to meaningfully localize and has meant leaving potential market share on the table. In this new era of drugstore retailing marked by hyper-competition, growth and profits will no longer be fueled by large-scale acquisitions alone. Thus, CVS has committed to a more holistic approach: Moving forward, the retailer will focus on capturing both share of lifetime value and driving trips. This will entail a sustained focus on creating a unique point of difference in health and beauty (leading with innovation and winning with new), balanced with a renewed focus on enhancing local relevance in higher frequency consumable categories to gain a greater share of trips and relevance with today's shopper.

What's Next for CVS?

CVS has started to implement a new strategy that leverages its strengths and revisits opportunities to go after some of the share it had previously left on the table. Thus far in 2010, CVS has accelerated organic expansion (entering six new markets including Puerto Rico; Memphis, Tennessee; and St. Louis, Missouri); launched a second-generation ExtraCare program (ExtraCare Advantage for Diabetes); and set its sights on the consumables and urban store opportunity.

With all the buzz about Tesco's arrival in the United States (with the opening of its first Fresh & Easy store in late 2007) and speculation about Walmart's and other leading retailers' plans to develop smaller-box urban formats with a greater emphasis on consumables, it's easy to overlook the business that's already there and the opportunity it represents.

The three leading drugstore chains already have an installed base of more than 18,000 stores ranging in size from 8,000 to 25,000 sq ft in many of the markets others are trying to enter. They are responding to this opportunity and the impending competition for the trip in their own way and are actively refreshing their stores, developing new formats, and building new capabilities. For CVS this will mean developing a go-to-market strategy that reflects its market variability and opportunities—shifting the growth paradigm away from a one-size-fits-all approach to growing share of wallet in an average store.

The Problem with Chain Averages

After a decade of acquisition and expansion, the average CVS box measures 11,500 sq ft, sells USD 7.9 million (USD 2.6 million front store) per year, fills 245 prescriptions per store per day, and has a 67% to 33% sales mix between the pharmacy and front store. The problem with averages is that very few stores resemble or behave like the chain average. Acknowledging that all stores are not shopped the same, CVS has invested aggressively to develop new insights and necessary capabilities to effectively tailor its merchandising programs and store environments to "accelerate sales by assorting to meet the different uses of the store" and unique market dynamics.

In late 2007, CVS hired Rick Molchan to the newly created position of Vice President, Retail Innovation & Store Design (RISD). In this new post, Molchan was tasked with assembling a team dedicated to delivering the necessary insights to drive meaningful enhancements to the overall look, feel, and physical presentation of CVS's stores (layout, planogram design, and signage). Over the past 12–18 months, this team has been busy analyzing over 1 billion POS transactions in conjunction with insights from ExtraCare and various research (e.g., eye-tracking studies, shop-a-longs, qualitative research, and motion analytics) to inform the retailer's understanding of how its customers shop the store. These efforts were complemented by the addition of a new 40,000 sq ft state-of-the-art RISD facility to the CVS corporate campus in the spring of 2009.

Using this data, CVS is clustering stores based on sales mix and trip type. These attributes are then assessed in the context of the surrounding market, taking into account population density and competitive set—to tailor assortment, placement, pricing, and promotion to enhance local relevance. As a result of this research, CVS identified five distinct ways in which its stores are shopped, which it has broadly grouped into three primary store clusters (Urban, Rx Dominant, and All Other) where they feel they can make meaningful changes that would impact shopping frequency and/or trips.

This initiative reflects a fundamental shift, as CVS looks to drive trips rather than wallet. It also represents a significant opportunity to grow the top and bottom line. As per management, an incremental trip is worth about USD 12 in contrast to just a few dollars for each additional item it gets a shopper to drop in the basket. According to Kantar Retail's ShopperScape™, 63.8% of CVS shoppers cited convenience and location as the primary reason for shopping at CVS.

CVS Begins Rollout of Expanded Consumables and Urban Store Prototype

Following a series of successful pilots that yielded strong improvements in sales, margin, and traffic,

Figure 3: Save a trip. Hundreds of New Food Items. Source: Kantar Retail store visits, July 2010

CVS began adding hundreds of new national and private brand (Gold Emblem) food items in more than 3,000 stores (citing plans to double the space dedicated to consumables in approximately half of the store base). While health and beauty are clearly still at the core of CVS's value proposition, since February CVS has been aggressively resetting categories, introducing hundreds of new items to its shelves and coolers.

These additions have been supported by a comprehensive outreach effort to convey to time-starved shoppers ways to "save a trip, money and time with our newly expanded food selection" (Figure 3). The selection of new items and subsequent merchandising are both thoughtful and appropriate, creating a variety of on-shelf solutions for different day parts: breakfast, a quick lunch, dinner tonight, and even baking needs. The blend of marketing and merchandising has served to both raise awareness of new products and position CVS as a resource.

In the months leading up to the expansion, CVS steadily increased its promotional efforts—shifting focus from discretionary and higher-priced items to emphasize everyday essentials and trip-driving categories. Over the 52-week period ended June 30, 2010, CVS increased total ad blocks 1.7% to just over 9,400, while its primary competitor has reduced ads by 5.5% (Figure 4). This masks a surge in the underlying promotion of food-related categories (dry grocery, grocery perishable, and fresh items), with CVS adding 529 ad blocks in these categories—up 28% over the prior-year period. That's not to say CVS is promoting more, as it has largely shifted the mix and messaging. Just as space within the store (both on shelf and endcap) has been reallocated from less productive categories (largely general merchandise) to make way for an expanded offer, promotional opportunities have also been impacted in non-food categories: CVS ran 374 fewer ads in "all other" categories.

Change in Weekly Ad Blocks by Category (July 2009–2010)

	CVS			Walgreens		
	2010	Unit Chg	% Chg	2010	Unit Chg	% Chg
Dry Grocery	2,219	443	24.9%	1,988	87	4.6%
Grocery Perishable	184	91	97.8%	235	35	17.5%
Fresh	1	(5)	-83.3%	50	7	16.3%
Other	7,009	(374)	-5.1%	7,437	(693)	-8.5%
Total Ad Blocks	**9,413**	**155**	**1.7%**	**9,710**	**(564)**	**-5.5%**

Figure 4 / Source: ECRM Marketgate Ad Comparisons, Kantar Retail research and analysis

These efforts have been complemented by the rollout of the retailer's new urban cluster prototype during the first quarter of 2010. As per President and COO Larry Merlo, CVS plans to remodel 20% of the base or approximately 1,400 stores in major metropolitan markets across the country in an effort to enhance relevance and drive quick trips.

Figure 5 illustrates some of the changes underway: revamped layouts with a clear focus on consumables and convenience in the front of the store, expanded coolers, new department signage and décor package, a new "Grab & Go" cooler featuring ready-made & easy meals, an improved checkout experience and self-checkouts, and expanded store hours and services for greater convenience.

Figure 5: Urban Prototype Cluster / Source: Kantar Retail store visits, July 2010 (Boston, Massachusetts)

Kantar Retail Point of View

CVS is not the first, nor will it be the last, retailer to segment and cluster its stores or to use food to drive trips. This isn't revolutionary. However, it is a revolutionary shift for CVS—a national chain whose breakneck rate of growth and primarily acquisition-fueled expansion has meant making very deliberate choices as to which customers they were going to go after and where they were going to play. For CVS, this has meant being okay with leaving some share on the table. For suppliers selling into CVS, this is a glimpse of Christmas future. CVS is a post-modern retailer competing in a post-modern marketplace marked by more direct and intense competition for every point of share, along with a greater need to solidify share of relevance with a new generation of smarter, technology-enabled, and time-starved shoppers.

While food will take on a level of significance within the box, it will not displace CVS's core focus on health and beauty. Consumables will serve as a conduit to health and beauty, fueling the necessary trips and creating opportunities for CVS to do what it does best: driving conversion and margin expansion. Look for CVS to aggressively build upon its strengths and track record of industry leadership and innovation (e.g., ExtraCare, Private Label & Exclusives, LIFE Store design, Healthy Skincare Centers, MinuteClinic, Beauty 360, etc.) to enhance its relevance to a broader segment of the population to more meaningfully localize and get after some of the share it had previously left on the table. However, a focused and appropriate use of food to enhance relevance and drive trips signals a fundamental acknowledgement of the changing landscape and evolving growth paradigm that has come to characterize CVS over the past decade.

For suppliers, this adds a new layer of complexity … and potential return. Gone are the days of building one-size-fits-all plans around 7,000+ doors of distribution. Going forward, CVS will look for targeted and relevant insight into categories with high degrees of variability by store cluster or geography to maximize its return on investment (ROI). CVS is moving to a portfolio strategy with the potential for stores located just a few blocks or miles from each other being merchandised, managed, and shopped differently. Judging from recent store visits in the greater Boston area, this has already happened. Managing this change will require greater transparency into the supply chain, an understanding of the role each store (or type of store) plays within its local market, and flexibility to respond to market conditions and align distribution with appropriate clusters to uncover pockets of growth.

Figure 1: Carrefour Vénissieux, 136 Boulevard Joliot Curie, 69633 Lyon, France / Source: Kantar Retail store visit

Kantar Retail Store Visit:

Carrefour Test Stores in Lyon, France

By Kaina Hamed & Vincent Verdier / Originally published on August 25, 2010

Kantar Retail recently visited two Carrefour hypermarkets in the Lyon area, Carrefour Vénissieux and Carrefour Ecully. These two stores are part of Carrefour's project to "reinvent the hypermarket." This project represents the last pillar yet to be launched by Carrefour within its broader En Avant strategy, announced by Lars Olofsson, Carrefour's Chief Executive Officer (CEO) in June 2009.

At the time Kantar Retail visited the stores, they were not fully refurbished yet; they were due to be completely remodelled by the end of August. The state of work already achieved, however, gives a relevant idea of the directions and concepts Carrefour wants to bring into these stores. Carrefour is also undertaking some tests within other European markets, such as Belgium and Spain.

The following article provides the key highlights of the Carrefour hypermarket's new format and will focus on two themes:

- Emphasis on a more entertaining and convenient shopping trip
- Objective to reduce operating costs

Lars Olofsson, Carrefour's Chief Executive Officer, plans to inaugurate these stores in mid-September and will then reveal its new strategy of its new hypermarkets.

The store in Vénissieux stands for the pilot store of Carrefour hypermarket's latest thinking. It comprises a selling area of 15,000 square metres, which is larger than the average Carrefour store in France (10,000 square metres). The store is located in the Minguettes neighbourhood, the lower-class suburb of Lyon. The hypermarket has two entrances, one leading to non-food items and the other one to fresh products.

Figure 2 is an illustration of the Ecully hypermarket, which is still a work in progress like the other test hypermarkets. Carrefour is not closing these stores during the refurbishment period, while it did so when it transferred its Champion supermarkets into the Carrefour Market banner in France in 2009.

This "reinvent the hypermarket" project has been announced for more than one year now; this is one of the first actual tests materialising in the marketplace for Carrefour. As a result of this delay, financial analysts, shareholders, and suppliers have high expectations for this project to revive declining sales across Europe.

Figure 2: Work Still in Progress / Source: Kantar Retail store visit

Figure 3: New Layout and Black Shelving / Source: Kantar Retail store visit

Figure 4: New Organic Section / Source: Kantar Retail store visit

Clear Emphasis on a More Entertaining, Convenient Shopping Trip

In the new concept, new shelves and displays have been implemented within the Cheese, Bakery, and Meat sections amongst others. A focus on black, lower shelves and new lighting systems are giving a more premium feel to the offering (Figure 3). Layout has also been reorganised, with aisles being repositioned to diagonal rather than parallel to each other. This organisation gives consumers more space to walk around the store and improves the shopping experience. A similar approach has been implemented within the non-food part of the store, particularly within the Consumer Electronics section.

Carrefour's new format allocates space for a dedicated Organic section, which gives particular emphasis on its Carrefour Agir private-label range (Figure 4). This section is in line with the retailer's intention to cover the majority of shopping trips and make better usage of its private-label ranges to this end. For example, this is a balance between the Carrefour Discount range and the more premium organic offering.

Figure 5 gives an overview of some key changes the retailer is rolling out in its French hypermarket division.

- Layout and space allocation
  - Lower shelves aiming at greater visibility
  - Improve shopping experience by allowing for consumers to test product before purchase (i.e., ironing board)
- Communication
  - Focus on single price points at gondola ends, in line with what has been implemented in its Villabe store (South Paris) since the beginning of 2010
  - Ongoing support of its "Promolibre" promotional campaign,

Figure 5: Non-Food Endcap at Carrefour Ecully / Source: Kantar Retail store visit

which covers both grocery and non-grocery categories. This promotional offer reimburses the cheapest of three products purchased using a consumer loyalty card account.

The focus to "reinvent the hypermarket" must give particular attention to the non-food categories (Figure 6). This is where Carrefour has been experiencing the most challenges within the channel in the last years. The test stores bring some new ideas and, again, this is particularly true regarding reorganisation of the floor space, as shown in

Figure 6: Implementing a More Entertaining Shopping Trip / Source: Kantar Retail store visit

the Baby section. Carrefour is now ready to dedicate greater space to some non-food brands, with a "branded corner" (Figure 6). This links with the Media Markt concept. While this space doesn't comprise an independent checkout, it represents a significant evolution from Carrefour that satisfies both its drive to become a more entertaining retailer, while improving returns per square metres, as this space obviously has a cost for brands.

Carrefour Aims at Reducing Its Operating Cost

The Ecully store has two entrances like Carrefour Vénissieux: the food and the non-food sections. By the entrance of the food categories, shoppers can clearly see a wider allocation space for the produce section, which is fully self-service (Figure 7). The objective of featuring this category at the entrance of the stores is to generate higher traffic and to increase the value of the average basket. Fruit and vegetables are exposed in plastic boxes that are piled up on top of each other, which optimises stock management. This section follows Carrefour's intention to balance a more convivial shopping experience while improving operating costs. For example, the new black

Figure 7: Boxes for Fresh Fruit and Vegetables Section / Source: Kantar Retail store visit

lighting and greater space improves the experience for consumers. At the same time, the full rollout of the boxes containing fruits allows for more efficient labour management.

Similar to the produce department design, Carrefour is rolling out new shelving into its Dairy category (Figure 8). The section exposes a better, more structured layout thanks to the use of panes of glass and boxes. This shelving packaging gives clear visibility on items and, to a certain extent, can make the shopping trip easier. Moreover,

Figure 8: Better Layout in the Dairy Category / Source: Kantar Retail store visit

from Carrefour's point of view, that clearly helps merchandisers and store staff replenish the ranges faster and easily make it more efficient.

A small space is dedicated to a new bulk section (Figure 9). Some items such as coffee, pasta, and flour are sold in bulk, which allows shoppers to freely serve themselves and weigh what they exactly want to purchase. This measure follows what Auchan has been implementing in its "Self Discount" section of hypermarkets over the last two years.

Figure 9: New Bulk Section / Source: Kantar Retail store visit

Kantar Retail Point of View

After many months, the long-awaited Carrefour "re-invent the hypermarket" concept is now taking shape. While not finalised, the stores visited in Greater Lyon starts to give a better idea of what Carrefour is considering, which is summarised around two themes:

- Improve shopping experience for consumers
- Reduction of operating costs

Carrefour has been taking inspirations from other retailers in both its Ecully and Vénissieux stores. Tesco, Auchan, and Media Markt have been clearly benchmarked, and best practices have been implemented by Carrefour. However, it is fair to state that the two stores visited do not represent a revolution of Carrefour's historical hypermarket concept—but more of an evolution. Carrefour's other tests across Europe, particularly the Mont St. Jean Waterloo store in Belgium and the El Pinar concept in Spain, represent a greater change compared with what has been seen within the French stores.

It is important to stress the role and position of national brands within these test stores—and how this relates to Carrefour's Business Development Program (BDP) and Category Rationalisation project. The combination of a new purchasing structure and the drive to reduce the number of SKUs listed in its assortment (2,000 food SKUs aimed to be taken out of Carrefour shelves by the end of 2010) is changing the way planograms are being built and implemented. Across various categories, we see in these stores some examples of brand blocking and greater space being allocated for some brands, usually category leaders.

This situation goes against some of Carrefour's principles of the last 24 months, which include pushing its private-label ranges in stores. While the Carrefour Discount range is indeed visible at the point of purchase, the communication and support of branded activity has increased both in and out of store (Figure 10). As a complement to this point, Carrefour remains keen on giving greater visibility to brands, which can provide the relevant innovation platform (Figure 11).

Figure 10: Advertising Communications Outside the Store
Source: Kantar Retail store visit

Figure 11: Opportunities for Innovative Items on the Shelves
Source: Kantar Retail store visit

Metro Cash & Carry Shapes Up Its Wholesale Offer

Reinventing the Concept or Building on an Established Trend?

By Vadim Khetsuriani / Originally published on November 9, 2010

Ever since the introduction of the "Shape 2012" program in the beginning of 2009, Metro Group's top management has insisted to company stakeholders that the success of the group depends on more effective execution of its corporate strategy. For years, Metro Cash & Carry proclaimed its commitment to be a "partner to professionals," but little changed in Metro stores and formats. The group management now realizes that the company must move quickly to achieve its wholesale ambitions and align corporate goals with the market reality. In this overview, Kantar Retail looks at the challenges and opportunities Metro has to boost its wholesale sales and win important strategic customers.

Smaller Stores: Retail "Story" with a Wholesale "Twist"

The trend of smaller grocery stores in Europe has been around for several years and continues to spring up in more and more markets, even in the Eastern European economies. Shoppers are increasingly unwilling to visit large hypermarkets and are switching to proximity formats that provide a similar pricing proposition with a narrower range. It is fair to compare this trend with what is happening to the cash & carry channel. In an effort to grow in small towns, Metro is opening 1,500 square metre (m2) stores and extending its wholesale business to pick-up outlets.

The logic is simple and clear: Metro cannot open 8,000 m2 cash & carry stores in a town of 50,000 people because of low demand and purchasing power, but the business opportunity to capture traditional traders is there. Once hypermarkets and discounters expanded in big cities, traditional trade got squeezed out. In the small towns of Poland, Romania, and Russia, however, the traditional trade is still an important "channel," encouraging Metro to open 1,500 m2 outlets in Poland, Romania, Croatia, and Ukraine. The concept is designed to attract independent shop owners who will visit the store frequently to purchase dry groceries. Examples of Metro's Macro Punkt in Poland are shown in Figure 1, a compact cash & carry with a small parking lot, and Figure 2, a "no thrills" wholesale environment inside a store with mainly a dry grocery assortment for independent traders.

Figure 1: Makro Punkt in Poland / Source: Kantar Retail store visit

Figure 2: Makro Punkt in Poland / Source: Kantar Retail store visit

Figure 3: Metro Drive in France / Source: Kantar Retail store visit

Metro also is organizing wholesale delivery to service these customers, which in Germany have already amounted to EUR 1 billion in sales in 2009. Wholesale delivery—combined with a point of pick-up, such as Metro Drive in France—is a way for Metro to capture HoReCa clients in rural areas who are using local wholesalers for their business needs and do not want to drive 100 km to the nearest cash & carry outlet. Figure 3 shows a Metro Drive in France encompassing a wholesale pick-up point for shoppers who order online and an office for Metro Customer Relationship Managers in the area.

Metro's Route to Success: Execution, Response to Competition Are Key

The Metro strategy makes a lot of sense. Not only is it the right way to attract traders and HoReCa customers in remote areas by giving them a more convenient offer with a small store and delivery, but it also is a growth strategy that appears to be financially viable. The cost of opening a pick-up point is insignificant when compared to a cash & carry outlet. Hence, Metro already has opened 13 pick-up points (Metro Drive) in France in just the past 12 months. The cost of opening a 1,500 m2 store could be as low as EUR 2–3 million in Poland, which is almost 10 times less than the cost of opening an 8,000 m2 cash & carry store.

However, the current competitive environment does not make it easy for Metro to grow its business with smaller stores. First, this strategy calls for effective human resources allocation and a strong client-facing organization: Metro Customer Relationship Management/Target Group Management. The whole function was defined by Metro Group during the last 18 months. The objective of this organization within the group is to recruit customers to small stores, define customer business needs, and act as Metro "promoters" in the small towns and villages. Second, the new Metro strategy is not exactly "new" for several Metro markets. In countries such as Poland, Portugal, and France, strong wholesale/cash & carry networks already exist and will most likely respond to Metro trying to take its share of the business.

Eurocash in Poland has executed a strategy similar to Metro for the past decade and has successfully recruited traditional stores to be a part of its ABC network. In addition, if Eurocash continues to consolidate wholesale in Poland with acquisitions, the buying power of Metro C&C in Poland will come under threat. In other markets, such as Russia, local wholesale distribution companies already have very competitive pricing to target traditional trade. Metro's proposition must be extremely effective and flexible to be able to compete with local wholesalers. If the objective for Metro is to steal shoppers from wholesalers, it must offer a broad product assortment, which is difficult because the satellite locations such as Punkt or Drive are still supplied through the "mother store" in the area. For this reason, Metro's current store-based business model may impede its ability to compete face to face with rival wholesalers.

Metro's Route to Success: Changing Local Buying Practices

One of the core attributes of a wholesaler is to operate a simple buying practice with profit based on lower invoice prices and not back-margin contribution, which is a classic multi-national retailer practice. For Metro, a quick transition from back-margin-focused buying to a front-margin-focused approach poses several threats. First, Metro buying teams work with a wide assortment that calls for a back-margin "cushion" to manage the risks of volume fluctuations. Metro is unlikely to be able to give up the back-margin income, and suppliers will not be willing to transfer the back-margin bonuses and risk destabilizing wholesale, and possibly retail, market pricing. The Metro model—based on retail-industry buying practices—will take time to change. As a result, Metro prices are not always competitive compared with the pricing of competing wholesalers. That disparity is an issue for traditional stores that operate on low-profit margins. Second, Metro has significant work to do when it comes to aligning assortments to the true needs of traditional shops and restaurants. While the Metro offer includes some of the core fresh foods and alcohol assortment, the dry grocery and non-food range calls for more in-depth analysis and alignment to specific shopper needs.

Kantar Retail Point of View

Branded manufacturers should recognize the importance of Metro's wholesale strategy and new format development. Although it will take time for Metro to prove to its vendors that the new formats will ramp up, vendors should think of a unique approach to help Metro succeed in its strategy. Suppliers should review their current commercial policy with wholesalers, discover the true cost of doing business with them, and then find gaps where Metro can potentially offer an advantage. The execution of such analysis should be driven by the local market teams that can assess the wholesale channel and find the gaps where Metro can substitute for a less effective wholesaler. This, of course, also depends on Metro's transition to a more decentralised pricing policy in its markets. Face-to-face competition with wholesalers is only possible for a decentralised, flexible network of cash & carry stores that can respond to customer needs locally.

2011 EMEA Events Calendar

KANTAR RETAIL

Q1

French Retailing Forum — **Paris, France**
Jan 31 The Return of Profitable Growth?
Geographical coverage – France

European Shopper Forum — **London, UK**
Feb 2 The Post Recession Shopper
Geographical coverage – Europe

Russian Skillbuilders Sessions — **Moscow, Russia**
Feb 10 Retailer Financial Models
Feb 11 NEW Customer Management – The New Modern Trade Reality
Geographical coverage – Russia

Carrefour G4 Session — **Paris, France**
Mar 29 Review and Implications - "En Avant" Growth Strategy
Geographical coverage – G4 (Belgium, France, Italy, Spain)

Q2

UK Retailing Forum — **London, UK**
Apr 25 General Session
Geographical coverage – UK

Russian Retailing Forum — **Moscow, Russia**
Apr 29 General Session
Geographical coverage – Russia

Non-Grocery Retail Session — **London, UK**
May 10 Non-Grocery trends update
Geographical coverage – Europe

European Mid-Year Forum — **Location TBD**
Jun 30 General Session
Geographical coverage – Europe

Q3

Tesco Global Session — **London, UK**
Sep 20 Geographical coverage – Global

ASDA Session — **London, UK**
Sep 21 Geographical coverage – UK

Spanish Retailing Forum — **TBD, Spain**
Sep 29 Geographical coverage – Spain

Auchan Russia Session — **Moscow, Russia**
Sep 29 Geographical coverage – Russia

Metro Russia Session — **Moscow, Russia**
Sep 30 Geographical coverage – Russia

Q4

Central European Hypermarket Session — **Warsaw, Poland**
Oct 18 Geographical coverage – Central Europe

Central European Discounter Session — **Warsaw, Poland**
Oct 19 Geographical coverage – Central Europe

Carrefour Global Session — **Paris, France**
Nov 22 Geographical coverage – Global

Auchan Global Session — **Lille, France**
Nov 24 Geographical coverage – Global

Lidl Europe Session — **Dusseldorf, Germany**
Dec 6 Geographical coverage – Europe

Metro Global Session — **Dusseldorf, Germany**
Dec 7 Geographical coverage – Global

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5 Early & Quick

Predictions About the China Retail Market

By: Phil Smiley, Siew Chin Chio, and Bryan Gildenberg

It's one of the fastest developing and hotly competitive retail markets in the world. China is the only retail market on the planet where mainland Chinese (private and government-owned), British, French, German, Japanese, Korean, Taiwanese and Hong Kong–based retailers are all battling for share of this fast growing market at the same time.

This creates a fast-changing marketplace that is hard to figure out and even harder to predict how it will play out in the future. One of the key challenges facing consumer goods companies is to predict the future shape of the China retail market and to make sure their organizations are ready to deal with it.

As Kantar Retail assesses markets, China is very much in Concentration mode right now—the early phase of market development where winners and losers begin to separate. The competitive landscape tends to be extremely traffic-focused, as key competitors seek to outposition their rivals for shopping frequency through promotions, in-store excitement, and beyond-the-store advertising. As Kantar Retail digs into this market, five things have become very apparent, very quickly:

1. Rapid Concentration—More than 50% Faster than the West

It took western economies such as the UK and the US about 50 years from the end of the second World War II to evolve from fragmented retail markets dominated by small independent shops to sophisticated retail markets where a handful of chain retailers dominate key segments of the market. Kantar Retail estimates it will take 15 to 20 years for the same evolution to happen in China. The traditional market evolution timelines that we have observed in the west will be "leap-frogged" in China, putting pressure on both retailers and suppliers to rapidly develop their operations and capabilities.

Why? Several key factors:

- **The retailers that are building up China are a combination of local players learning how to scale and global operators that know how to scale already.** The locals are doing an inconsistent job today of learning from their more experienced global competitors—but we believe that the retailers that win in China long-term will have global best practice acquisition as part of their arsenal.
- **The growth opportunity** – As China continues its growth rate, somewhere between 50–100 million Chinese emigrate from rural areas to urban ones every year. This obviously can't continue forever, but simply meeting the backlog in demand from consumers moving from subsistence to consumption is a significant opportunity over the next few years.
- **State involvement** – It is unlikely the Chinese government will passively participate in a market being concentrated by sophisticated global players. We expect to see combinations and consolidation of the domestic players taking place rapidly to help the domestic players scale vs. the key globals.

2. China Retail Will Be Multi-channel from the Get Go

In western economies, chain retailers initially grew rapidly by expanding and replicating their core format—such as Tesco and its core supermarket format in the UK and Walmart and its supercenter in the US. Creating new formats has become a key battle front today as opportunities to open more stores of the core format dry up. Leading retailers in China are starting multi-format. Tesco already operates hypermarket and express formats, Walmart is closely examining small formats, and domestic retailers such as China Resources Vanguard already operate five retail formats including hyper, super, convenience and premium supermarkets.

The following table is a Kantar Retail very simplistic model of what we believe the China format environment will look like in dollar terms by 2020.

Broad Channel	2020 Model 3 Trillion Market	
Cash & Carry	2%	60
Category Specialist	17%	510
Convenience	11%	330
Department	7%	210
Discount	4%	120
Drug	5%	150
Hypermarket	32%	960
Online	7%	210
Supermarket	16%	480

Source: Kantar Retail

Some key takeaways:

- The hypermarket channel will be nearly 30% larger in China in 2020 than it is in the US, Europe and Japan combined today.
- The convenience channel will be 50% larger than the US, Europe and Japan combined are today.
- The supermarket business will be the size of the US chain supermarket industry today.
- Category specialists will be slightly larger than in the US today.

Suppliers in particular must begin building today for what will be a continent-sized multi-channel marketplace.

3. Local Companies Will Be Amongst the Key Players Long Term

It's tempting to think that the story in China is about how the international retailers such as Walmart, Tesco, and Carrefour will end up leading the market. The reality may well be very different. Chinese retailers are already making strong headway in this market and competing very effectively with the international retailers. Companies such as Bailian Group (the biggest retail chain in China) RT-Mart (one of the best performing and fastest growing retailers in China), Beijing Hualian Group (one of the most innovative retailers in China), China Resources Vanguard, and many others will emerge as key players. In many cases the fact they are local and their part-or full-state ownership gives them an edge on the international competition. Regional players like Yong Hui also continue to gain steam, and it is likely that there will be significant regional domestic powerhouses as well as two or three key national scaled players.

4. J-Retail and K-Retail Firms Will Be Key Players

Japanese and Korean retailers such as Family Mart and Lotte Group have steadily been building good positions in the Chinese market. These highly capable retailers enjoy strong market shares in the wealthiest Asian economies which gives them the resources and ability to expand overseas. They also have a strong strategic reason to invest further in China—growth in their home markets has all but disappeared.

5. Multi-channel Means Offline and Online

When Walmart had 300 stores in the US, the Internet barely existed. Today Walmart has 300 stores in China, a country with 400 million Internet users and rapidly rising usage of all things digital including e-commerce, IM, social networking, and micro-blogging.

Taobao (the leading Chinese C2C and B2C exchange, not dissimilar to eBay) is forecast to achieve gross merchandise sales of approximately USD 60 billion in 2010. Taobao also plans to open up to 30,000 offline stores in which consumers can access the exchange, make transactions and payment, and return to collect their goods

In addition, due to lower labor costs, there is an extremely low-cost B2C fulfillment model in China which means consumers can have goods delivered to their homes at exceptionally low cost. Consumers buying from Taobao in major Chinese cities pay an average of 5RMB for delivery—less than USD 1.

If we consider the size of the landmass, the Chinese consumers' famous thirst for a bargain, the developing infrastructure, and the current lack of sophistication in the retail market, the conditions are right for a boom in e-commerce. Online retailers have already recognized this with Tesco and Walmart both announcing plans to develop their dot.com business in recent months.

Getting It Right:

Anticipating Walmart's Challenges

Leon Nicholas / Originally published on October 28, 2010

By December of 2009, Walmart's US comparable-store sales (comps) had been negative for two quarters running, though traffic had yet to decline. Still, Walmart expressed confidence in its Project Impact plan, saying that the transformational strategy was well underway—with over one-third of the store base converted to Impact status. "Our underlying business remains strong," announced Eduardo Castro-Wright in November 2009, signaling that senior management was resolutely in support of the continued rollout of Project Impact.

At Kantar Retail's 2009 Year-End Forum in Atlanta, Georgia, we expressed some concerns about the Project in an effort to suggest that serious "fault lines" had emerged, threatening the success of the endeavor. Figure 1 illustrates the actual slide we presented.

With Project Impact now being dismantled one year later, it is useful to look back and see which, if any, of the "fault lines" we identified actually proved to exert pressure on Walmart's management to reverse its course.

Seeing Ahead

In retrospect, it seems as if each of these warning signs played a role in Walmart's decision to "roll back" Project Impact. Let's look at each threat established by Kantar Retail in Figure 1 and reflect on what Bill Simon, President and CEO of Walmart US, is saying now. (All quotes are cited from the Goldman Sachs Global Retailing Conference held on September 15, 2010, unless otherwise noted.)

"SKUs cut too far—shopper mission endangered"

- This was the foremost threat to Project Impact that we outlined, and it turned out to be the greatest one. Simply put, Walmart cut too many SKUs. After returning a few hundred items to shelves in the spring, Walmart is now "in the process of reviewing literally billions of items, store combinations of products and SKUs that were in stores and restoring anything and everything that was profitable for us ... we're going as fast as we possibly can."
- Walmart also acknowledged that the shopper's core mission of a single point of purchase with broad assortment was compromised. Simon said, "What we saw was a loss of trips; and the trips, we believe, were driven by [the] inability to fill the order completely with the one-stop shop."

Original Slide from Kantar Retail's Event, Year End Forum 2009...

Threats on the Horizon ...

Where are the fault lines?

SKUs cut too far—shopper mission endangered

Innovation occurs where bets aren't placed—and Walmart can't respond rapidly

Implementation of complex marketing strategy not aligned with a supply chain tooled for EDLP

Organizational capacity (willingness?) lacking

Fewer suppliers engaged collaboratively

Figure 1: Walmart's Project Impact—Summary of Threats / Source: Kantar Retail analysis

With Project Impact now being dismantled one year later, it is useful to look back and see which, if any, of the "fault lines" we identified actually proved to exert pressure on Walmart's management to reverse its course.

"Innovation occurs where bets aren't placed—and Walmart can't respond rapidly"

- Walmart's "Win, Play, Show" category prioritization framework left it at risk of missing out on key innovations in categories that it wasn't emphasizing. As a result, Walmart is now declaring that "we will win in every category in which we compete. Every four-foot section of our business, we will attempt to grow."
- Walmart also acknowledged that it may have lost supplier share-of-mind. At the retailer's annual meeting for investors on October 13, 2010, Simon suggested "many of them [suppliers] were forced to go to other places to get their growth. We want that back. We'll deliver it for them." The previous month, Simon emphasized with regard to new items that "we want to sell your product ... we can launch a new product for a supplier better than anybody in retail." Moreover, at the Center for Retail Excellence conference on October 6, 2010, Simon spoke earnestly about innovation, encouraging suppliers to regard Walmart as first among retailers when considering where to launch innovative products. Walmart, it seems, is a "house of brands" again.

"Implementation of complex marketing strategy not aligned with a supply chain tooled for EDLP"

- As part of Project Impact, Walmart altered its pricing strategy across categories and geographies toward high-low pricing and at the same time removed Action Alley pallets, increasing the opportunities for periodic out-of-stocks. Now, EDLP is once again Walmart's fundamental strategy. "We're committed to price leadership through EDLP in the form of basket savings," Simon said at the investors meeting.
- And, of course, Action Alley is back at most Walmart stores, as Simon stated that "we are a mass merchant ... and we're restoring Action Alley."

"Organizational capacity (willingness?) lacking"

- Project Impact's implementation shifted power from Operations and Merchandising to Marketing. Furthermore, greater authority was vested in Bentonville instead of individual market and store managers. These power shifts, particularly away from buyers, were considered a threat to Impact's success in that it disrupted the traditional power structure at Walmart and ran the risk of alienating constituencies.
- That internal disruption seems to have occurred, and those decisions are now being reversed as well. Simon's statement that "everybody's a merchant" reinforces the power shift back to buyers. In addition, he has given some autonomy back to store managers, stating that "our store managers are very, very excited and energized" with that course correction and asserting that "the pendulum will move ... it needs to move."

"Fewer suppliers engaged collaboratively"

- Project Impact sidelined many of Walmart's suppliers and excluded them from win-win, mutually beneficial transactions—a shift from previous practices in which Walmart and suppliers worked more closely together around new product launches, market research, and assortment. The CSI process also alienated a number of suppliers who felt that Walmart

Returning de-listed SKUs, opening up Action Alley, relaxing supply chain demands, and seeking new items, Walmart appears to once again be seeking "progressive and collaborative" supplier relations.

was "strong-arming" suppliers into investing in developing Walmart's brand. Indeed, Simon suggested that the "tone" with suppliers had become "combative and sales-preventative" during the Project Impact–era. Clearly, the fault line was widening.

- Over the past several months, Walmart has reached out to the supplier community in an effort to repair relationships. Returning de-listed SKUs, opening up Action Alley, relaxing supply chain demands, and seeking new items, Walmart appears to once again be seeking "progressive and collaborative" supplier relations. As Simon proclaimed to the supplier community, "we are open for business, and we want to sell your product."

In sum, it appears that each of the threats to the success of Project Impact that Kantar Retail identified in December of 2009 did in fact emerge. Bill Simon's statements over the past few months point to the emergence of each threat and therefore to the revisions underway to address these issues today.

Attendees at our 2009 Year-End Forum event, it seems, got a preview of the threats that would ultimately materialize and lead to the reversal of Project Impact.

Shopper Insights

As shoppers continue to change at an unprecedented pace—the need for rich and timely insights has never been greater. Kantar Retail's Shopper Insights answers key questions about shopper behavior:

- What are shoppers' intentions to spend?
- Which stores are shopped regularly – who's winning and who's losing?
- What categories did shoppers buy? How does it compare to the past year?
- Who shops specific retailers' stores, websites, and/or catalogs?
- What do shoppers spend on key merchandise groups? Where do they spend the most and why?

For More Information, Please Contact

CustomerService@mvi-insights.com / 1.617.588.4100

Shopper Insight analysis, data reports & the ShopperScape™ database Get a fact-based point of view of shoppers' future intentions to spend, their perceptions of household financials, and which retail venues are sought for the variety of merchandise groups. The ShopperScape™ monthly, online survey is balanced to be representative of the US household, giving you access to data for:

- 4,000 self-designated primary shoppers in the household
- Spending behavior at 200 retailers
- Purchasing behavior at 70+ categories in seven category groups

Shopper Webinar Series Gain critical insight into shopping behavior in the food, drug, and mass retail channels. Hear forward-looking, expert insights into shopper motivations, in-store behaviors, and purchasing decision processes that allow you to know what makes shoppers tick and how to align yourself with where the growth is. Powered by the proprietary ShopperScape™ monthly survey, the series provides insight into what factors are influencing shopper behavior right now.

Connecting with Shoppers in Their Social Space

By Jennifer Halterman / Originally published on September 30, 2010

FDM retailers will place more and more importance on grabbing shopper attention via new media and methods (e.g., Facebook), as traditional mass market media (TV, newspapers, etc.) become less effective. However, simply having a presence on Facebook to engage with fans will not be sufficient. Facebook campaigns must continue to evolve with evolving technology. Look for an increasing level of collaboration between retailer and brand marketer to drive future creative efforts and deliver brand-building opportunities that can result in a win-win for all.

The Lure of Facebook

Six years after its launch from a Harvard University dorm room, Facebook has become the world's largest social network, with more than 500 million active users, including nearly half of the US population (Figure 1). It also is one of the Web's most heavily trafficked sites, trailing only Google and Yahoo in unique visitors, according to Compete Inc.'s July 2010 rankings.

Beyond the sheer size of the potential audience, Facebook offers retailers and brand marketers a level of interaction missing from most other marketing tools. At its most basic, Facebook enables retailers and brand marketers to push content and promotional materials to users who opt to become "fans." At its most sophisticated, Facebook can facilitate a dialog with shoppers that yields actionable insights and improves loyalty.

At its most sophisticated, Facebook can facilitate a dialog with shoppers that yields actionable insights and improves loyalty.

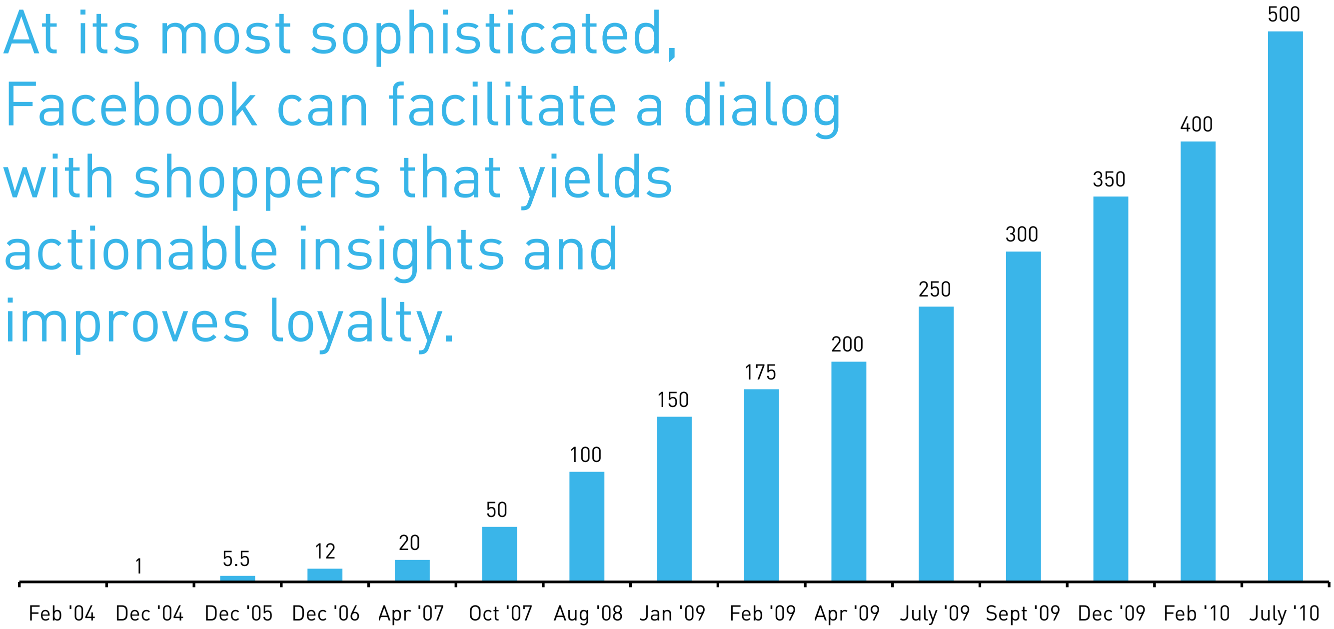


Figure 1: Active Facebook Users (millions) / Source: Facebook.com

The viral nature of the social networking platform is another distinctive component of Facebook vis-à-vis other communication vehicles. When users take action (e.g., "comment," "like," "share") on a Facebook fan page, their "friends" see it, and the page has the potential to attract more fans—the more fans, the more brand-building opportunities.

Interacting with fans via Facebook is important because it allows retailers to penetrate shoppers' social space. This is critical as it becomes more difficult to get shoppers' attention with traditional marketing media, such as television, newspaper, radio, etc. Beyond the ability to communicate one's brand, retailers increasingly use Facebook to drive traffic to their websites.

Commonly Used Facebook Terms and Tools

Comment: A note related to a Facebook posting

Fan: A user who has indicated they "like" a certain Facebook page

Friend: A Facebook user who accepts an invitation to share information

Like: A show of approval or agreement with a comment, picture, etc.

Page: An organization's profile (e.g., Target's Facebook page) vs. an individual's profile

Post: Sharing of content (e.g., status update, photo, etc.)

Profile: Information (e.g., birthday, hometown, interests, etc.) an individual user shares with friends

Share: Content, messages, photos, etc. a user allows other users to see

Status: A brief statement of what is on a user's mind

Wall: The center of a profile/page where updated information (e.g., status postings, photos, videos, and more) is shown

Connecting with Shoppers via Facebook

Following is a list of some ways that progressive retailers are using Facebook:

- **To drive fans online or to the store.** Effectively leveraging Facebook means creating purchasing/revenue-generating opportunities. This can entail posting information about sales, offering coupons, providing tools (such as checklists and recipes), etc.
- **To promote new products and services.** Facebook can be a powerful promotional tool. Because of the viral nature of Facebook, fans can help quickly spread the word to friends.
- **To demonstrate an area of expertise.** Retailers can use Facebook to communicate their knowledge in areas such as health and wellness, eating right, organics, and money-saving tips.
- **To engage guests in unique ways.** Many retailers already offer helpful and entertaining applications (e.g., blogs, contests, information guides) on their websites. Taking these applications to Facebook is important: The level of interactivity is heightened on Facebook because of the ability to share with friends, initiate a dialogue among fans, etc.
- **To solicit feedback.** Although Facebook offers users the ability to converse on any given topic, retailers can direct that conversation so that they can receive helpful insights/feedback.
- **To communicate corporate responsibility efforts.** Facebook can help educate fans about a retailer's philanthropic interests, charitable donations, and sustainability initiatives.

Purchased a product online	61%
Researched a product online before making a purchase at a store	48%
Spent time on a social networking site (e.g., Facebook, Twitter, blogs, etc.)	46%
Signed up to receive emails from a retailer	41%
Downloaded and used online coupons for an in-store purchase	38%
Engaged in social networking conversations online (e.g., posting/responding to comments, chatting, etc.)	31%
Downloaded/used online coupons for an online purchase	20%
Accessed a social networking site (e.g., Facebook, Twitter) on my mobile device	18%
Downloaded a social networking "app" (e.g., Facebook, Twitter) to my mobile device	8%
Accessed a retailer website on my mobile device	7%
Downloaded a game or entertainment "app" to my mobile device	7%
Downloaded a utility "app" (e.g., grocery list, bank account, etc.) to my mobile device	4%
Researched a product from my mobile device while shopping in a store	4%
Downloaded coupons to my mobile device	3%
Downloaded a retailer or shopping "app" to my mobile device	2%
Purchased products online from my mobile device	2%

Figure 2: Online and Mobile Retailing Activity Engagement / Source: ShopperScape™, January 2010

Kantar Retail Point of View

Investing in Facebook should be a part of every manufacturer's and retailer's marketing budget.

According to ShopperScape™, nearly half of all shoppers spend time on social networking sites, e.g., Facebook, Twitter, etc. (Figure 2). Facebook can act as an important conduit in conversing with shoppers, elevating brands, driving shoppers online or to stores, and much more. Watch for Facebook campaigns to evolve and become more elaborate going forward.

Manufacturer Implications

Although there is some risk involved in associating a manufacturer's brand with a retailer's on a viral platform, opportunities to drive brand exposure and raise purchase potential could outweigh the risk. Manufacturers would be wise to take the chance rather than fall behind.

A key question for manufacturers is: What role do I want my brand to play on a retailer's Facebook page? Although many manufacturers have Facebook pages dedicated to individual brands, collaboration on retailer-specific campaigns and applications may boost brand exposure. Some opportunities include:

Help tap new opportunities. Manufacturers may be able to fill the gaps if a retailer's communication efforts on Facebook are lacking. This could entail partnering on health and wellness content or sponsoring recipe applications. Opportunities vary depending on the retailer.

Offer special promotions. Manufacturers and retailers should consider ways to team on special offers (e.g., coupons, product trials, etc.) for Facebook fans. Fans can share the offer with friends, which could help drive shoppers to the retailer's Facebook page and store—a win-win for all parties.

Collaborate on charitable efforts. Manufacturers should look for opportunities (e.g., contributions, sponsorships, etc.) to partner on retailers' philanthropy campaigns on Facebook.

Competitive Implications

It is no longer sufficient to just have a Facebook presence. Retailers must actively engage their fans by leveraging one of the medium's greatest assets: the ability to generate a two-way conversation with shoppers. Some opportunities include:

Make Facebook fans feel exclusive. Being a retailer's Facebook fan should have more benefits than just receiving updates and postings. Fans should be rewarded for associating themselves with your brand. This could take the form of special offers or advance notice of promotions (e.g., Black Friday deals). Receiving discounts/promotions is the top motivation for "liking a

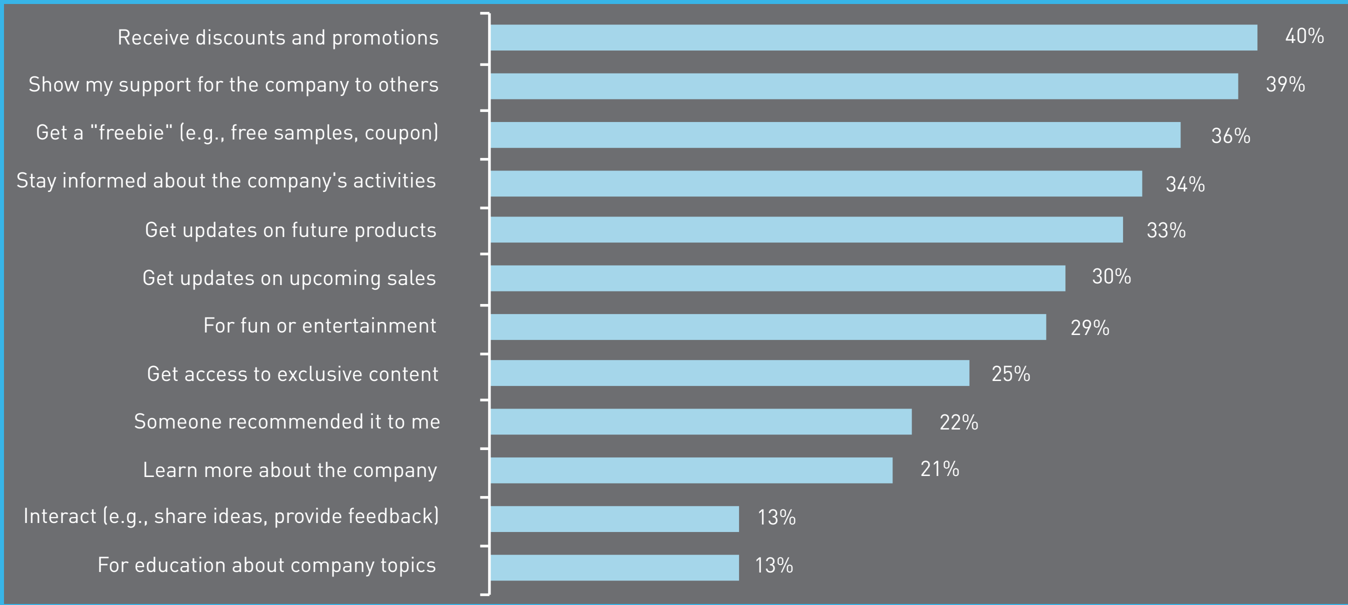


Figure 3: Motivations for "Liking" a Company, Brand, or Association on Facebook, April 2010 / Source: ExactTarget—Subscribers, Fans and Followers: Facebook X-Factors, August 25, 2010

company/brand/association on Facebook," according to ExactTarget (Figure 3). Showing support for a company ranks a close second, so rewarding fans has its payback.

Deliver applications that are fun and exciting. Fans are more likely to participate if a contest, game, or tool is engaging. A higher level of participation means greater exposure on Facebook because of its viral nature, which could elevate a brand and boost the fan base.

Look around for best-practice examples. It is important to look outside the box for great ideas. For example, some fashion retailers are forerunners of innovative Facebook campaigns. In December 2009, visitors to The Limited Facebook page were able to purchase one of the retailer's best-selling items without ever leaving the social networking site.

Take advantage of new Facebook applications. Geo-location services (e.g., Foursquare) are becoming more popular, and a growing roster of retailers offer coupons to customers who check into specific stores via Foursquare. Now Facebook has launched Places, which allows users to share their location with a friend via their mobile phone or touch.facebook.com. When a user "checks into" a location, a page shows a map of where the Place is located, a list of friends currently checked in at the Place, and a "Friend Activity" stream of other friends who have visited in the past. This new Facebook feature represents another opportunity for retailers to explore.

Demographics & Store Trip Motivations

Parsing the Post-Modern Shopper Opportunities

By Stephen Spiwak
Originally published on September 28, 2010

Despite the persisting economic difficulties, a majority of shoppers who visited a Home Depot and/or Lowe's store in the past year bought something on their last visit (Figure 1). ShopperScape™ also shows that opportunities abound to boost conversion and up-sell rates. For example, Seniors have higher purchasing rates than other generational segments, and Boomers remain a key segment in the home-improvement sector. Frequent shoppers, cross-shoppers, idea shoppers, maintenance shoppers, and shoppers who leave a store empty-handed are also robust opportunities. Understanding home-improvement shopping modes in the post-recession era is critical to uncovering key sales opportunities.

Figure 1 / Source: Kantar Retail ShopperScape™, July 2010
**Read as: among those who shopped The Home Depot in the past year, 72% purchased at least one item on their last visit.*

Purchasing Rates, Shopping Modes Show Key Opportunities

- **Boomers and Seniors remain a force.** Among past-year Home Depot shoppers, Boomers and Seniors are significantly more likely than younger generations to have purchased at least one item on their last visit to a Home Depot store. Affluent shoppers also are more likely to have purchased something compared with lower-income households. This last-visit purchasing pattern is similar for Lowe's shoppers, though Seniors are the only generational segment that is more likely than average to have made a purchase on their last visit (Figures 2 and 3). Until Gen Y emerges as a buying force in the coming years, the older generational cohorts will remain the key drive of growth in the next five years.
- **Cross-shoppers are opportunities—and threats.** Loyal shoppers and cross-shoppers are key drivers of recent buying trends at The Home Depot and Lowe's. About nine in 10 monthly Home Depot shoppers bought at least one item on their last visit to a Home Depot store, significantly greater than the average for all Home Depot shoppers. Additionally, nearly three-quarters of monthly Lowe's shoppers made a purchase on their last Home Depot visit, indicating strong cross-buying activity among the more loyal Lowe's shoppers. This pattern is similar for Lowe's shopper base. Lowe's monthly shoppers are nearly certain to buy something on a visit to Lowe's, and more than half of monthly Home Depot shoppers also bought on their last Lowe's visit. The higher cross-shopping incidence among Lowe's shoppers is due in part to Home Depot's bigger store base, which gives Lowe's monthly shoppers more opportunities to shop both rivals (Figures 4 and 5).

Home Depot Purchaser Base on Last Store Visit, Key Shopper Segments

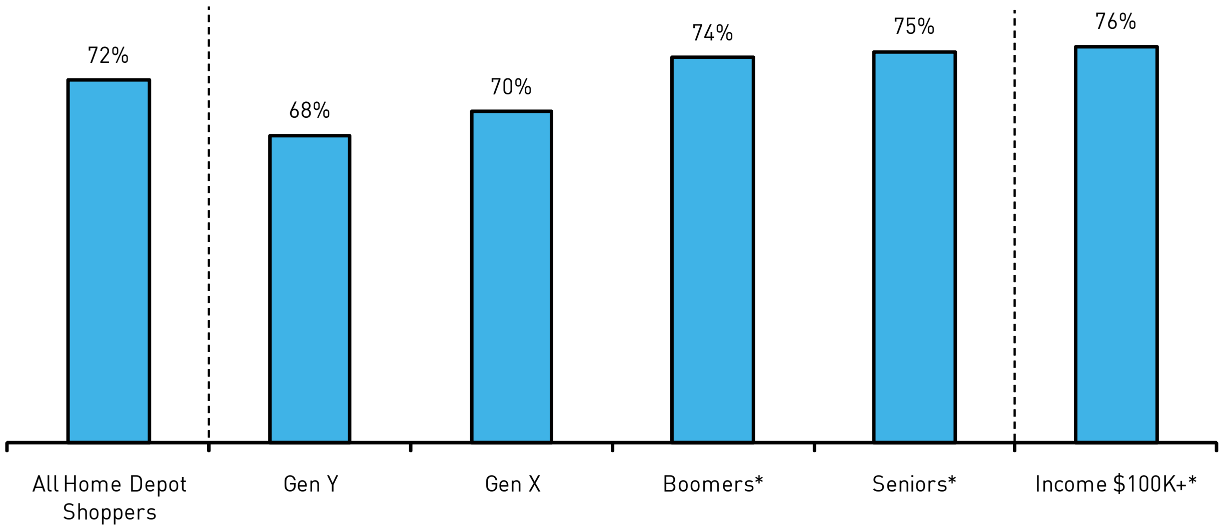


Figure 2 / Source: Kantar Retail ShopperScape™, July 2010
**Last-visit purchasing percentage is significantly greater than the percentage for all Home Depot shoppers.*

Lowe's Purchaser Base on Last Store Visit, Key Shopper Segments

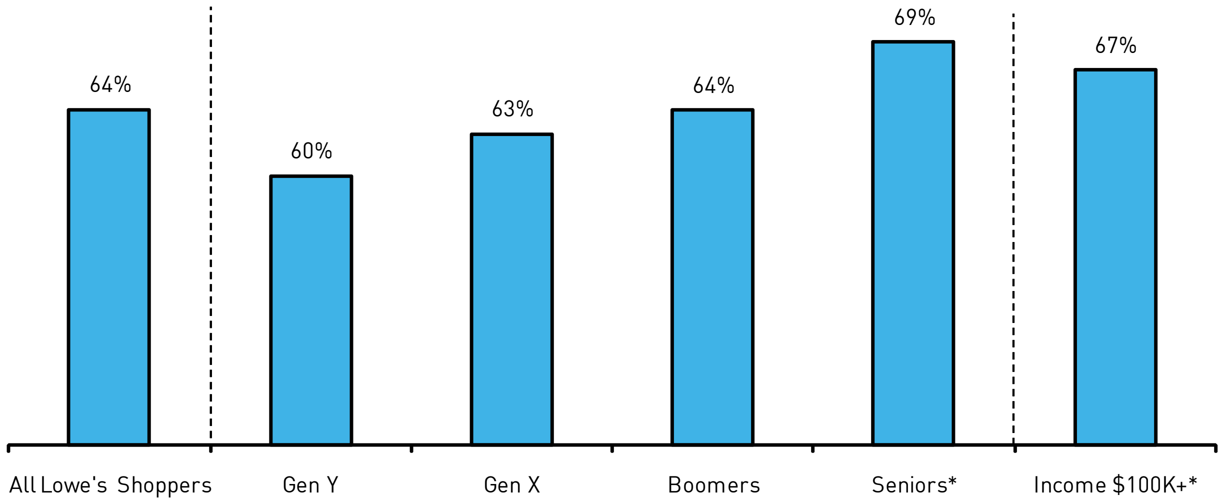


Figure 3 / Source: Kantar Retail ShopperScape™, July 2010
**Last-visit purchasing percentage is significantly greater than the percentage for all Lowe's shoppers.*

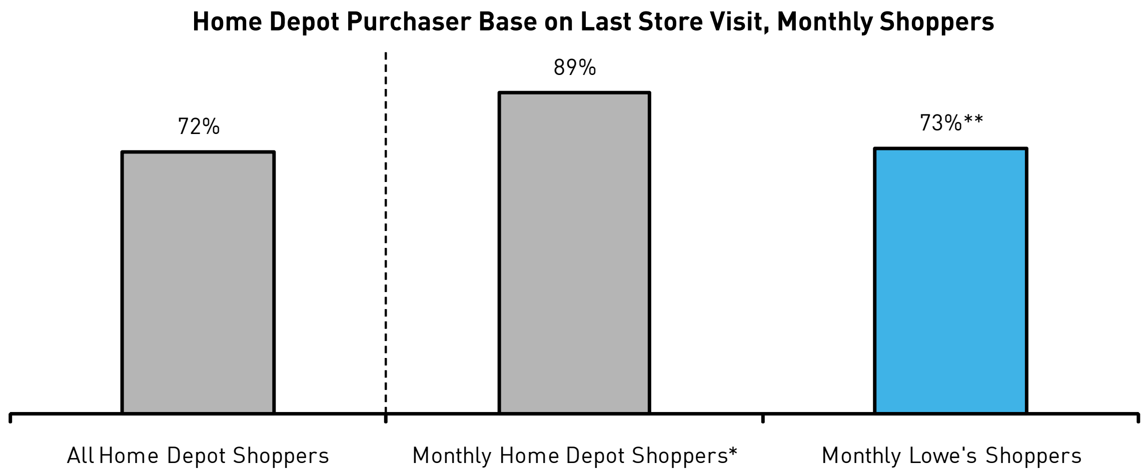


Figure 4 / Source: Kantar Retail ShopperScape™, July 2010
**Last-visit purchasing percentage is significantly greater than the percentage for all Home Depot shoppers.*
***Read as: 73% of monthly Lowe's shoppers who shopped The Home Depot in the past year purchased at least one item on their last Home Depot visit.*

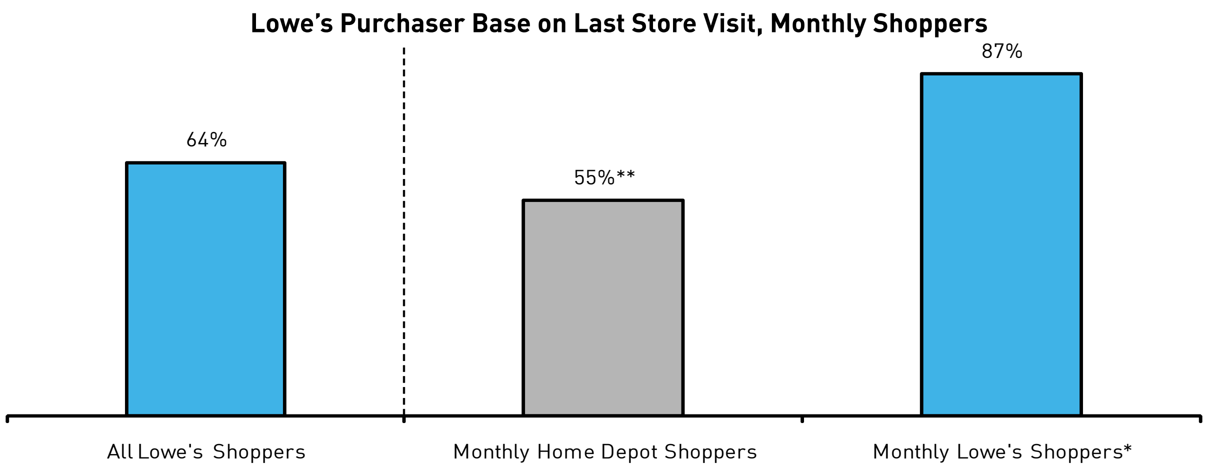


Figure 5 / Source: Kantar Retail ShopperScape™, July 2010
**Last-visit purchasing percentage is significantly greater than the percentage for all Lowe's shoppers.*
***Read as: 55% of monthly Home Depot shoppers who shopped Lowe's in the past year purchased at least one item on their last Lowe's visit.*

8% of all Home Depot and Lowe's shoppers—about one in 12—will walk out empty-handed during a given store visit despite the fact they came with the intention to buy something.

- **Most are in the store to buy, but many buy on impulse.** Among shoppers who made a purchase on their last trip to Home Depot, about three-quarters report the main reason they went to the store was to buy something, such as a home-maintenance product, products for a home-improvement project, or something they couldn't find at another store or retailer. The main store-visit reasons among the remaining purchasers include getting ideas for upcoming projects, making a return/exchange, or another reason. This suggests a sizeable percentage of purchasers buy at the retailer on impulse. This overall buying-intention pattern is similar for Lowe's, with nearly three-quarters of those who purchased on their last visit going to the store with the intent to buy, while the balance of purchasers were in the store mainly for other reasons.

- **Store trip motivations differ somewhat between The Home Depot and Lowe's.** For The Home Depot, the fact that the percentage of purchasers whose main reason for visiting the store was to buy home-maintenance products is statistically equivalent to the percentage whose main reason was to buy products for a home-improvement project indicates that home maintenance has become as important as project-selling for the retailer amid the housing downturn. In comparison, Lowe's purchaser base is skewed toward those who report their main reason for visiting Lowe's was to buy for a home-improvement project.

- **More than one in 10 shoppers went to another store first.** Both retailers show the same level of cross-buying activity among recent shoppers, with about 11% of purchasers on a given store visit motivated by an inability to find a product at another store or retailer. This is a prime opportunity for The Home Depot and Lowe's to build incremental sales by ensuring items are in stock or by being ready to help with special orders.

- **Defectors' shopping modes highlight missed sales opportunities.** Among shoppers who left a Home Depot or Lowe's store without making a purchase during their last store visit, the largest percentage were there to get ideas for an upcoming project. Converting these idea shoppers into buyers is a key sales opportunity. Another strong opportunity is the combined percentage of shoppers who left both retailers empty-handed but whose main reason for visiting was to buy something. Indeed, these figures translate into a sobering statistic: 8% of all Home Depot and Lowe's shoppers—about one in 12—will walk out empty-handed during a given store visit despite the fact they came with the intention to buy something (Figures 6 and 7).

Main Reason for Shopping Home Depot Among Shoppers Who Left Store Empty-Handed

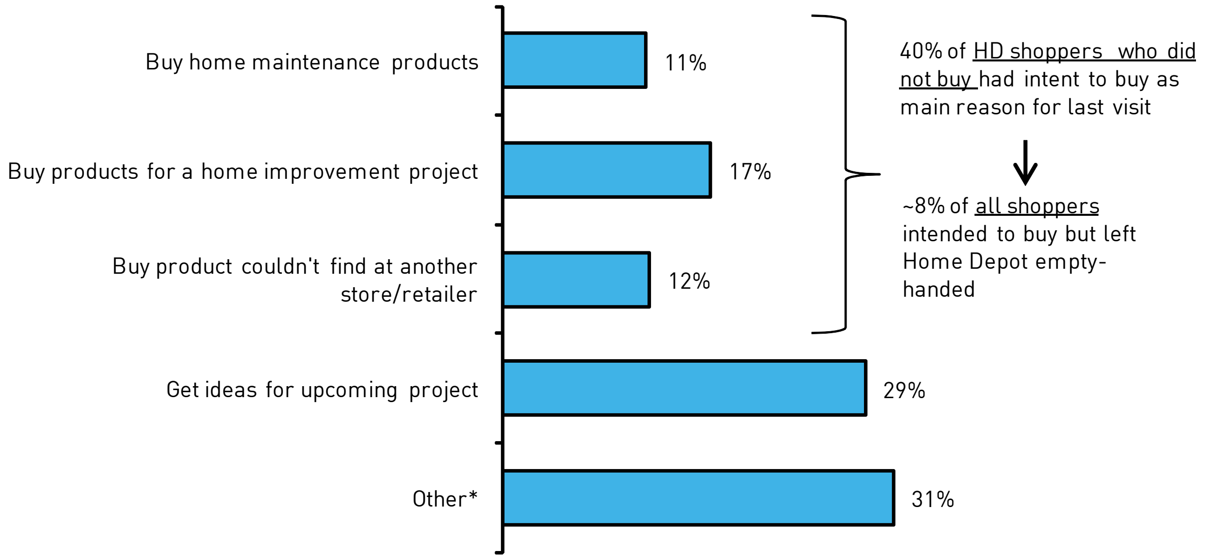


Figure 6 / Source: Kantar Retail ShopperScape™, July 2010
**Other includes returns, exchanges, recycling, other unspecified trip drivers, and "don't remember" responses.*

Main Reason for Shopping Lowe's Among Shoppers Who Left Empty-Handed

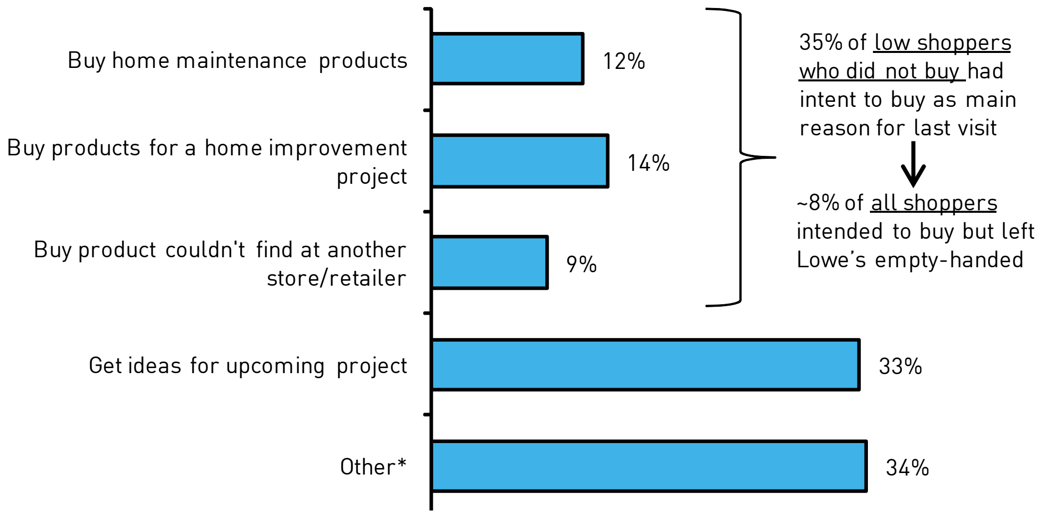


Figure 7 / Source: Kantar Retail ShopperScape™, July 2010
**Other includes returns, exchanges, recycling, other unspecified trip drivers, and "don't remember" responses.*

2011 Americas Events Calendar

KANTAR RETAIL

Q1

Executive Forum
Jan 19 / Tampa, FL

Chain Drug SuperSession
Feb 15-17 / Orlando, FL

Kroger SuperSession
Mar 15-17 / Cincinnati, OH

Latin American Retailing Forum
Mar 22-24 / Miami, FL

Q2

East Grocery SuperSession
Apr 5-7 / DC/Baltimore

Walmart SuperSession
Apr 12-14 / Rogers, AR

Costco Workshop Series
Apr 26-27 / Seattle/Bellevue

Value Discounters Workshop Series
May 3-5 / Memphis, TN

Shopper Forum
May 18 / Chicago, IL

Mid-Year Forum East
Jun 14-16 / Boston, MA

Mid-Year Forum West
Jun 21-23 / California

Q3

Mexican Retailing Forum
Jul 12-14 / Mexico City

Walgreens Workshop Series
Aug 16-17 / Chicago, IL

CVS Workshop Series
Aug 23-24 / Rhode Island

Safeway SuperSession
Aug 30-Sep 1 / Oakland, CA

Online/Multichannel Workshop Series
Sep 13-15 / California

Target/Supervalu SuperSession
Sep 20-22 / Minneapolis, MN

Q4

Canadian Retailing Forum
Oct 4-6 / Toronto, Canada

Future of Category Management Forum
Oct 26 / Chicago, IL

Walmart SuperSession
Nov 1-2 / Rogers, AR

Year-End Forum
Dec 6-8 / Atlanta, GA

For more information - E-mail CustomerService@mvi-insights.com or Call 1.617.588.4100

KANTAR RETAIL

2010 POWER RANKING®

In its 14th year of publication, the Kantar Retail PoweRanking® Study identifies the manufacturers and retailers that have performed best in the eyes of their trading partners. Entitled "Superior Performance in the New Normal," the just-released 2010 PoweRanking® study recognizes retailers and manufacturers that have excelled in forming strong relationships in the New Normal environment.

Superior Performance in the New Normal

This year's study highlights the drivers for success in the changed economic environment. Kantar Retail points to the ability to execute as the tipping point—with the strategy for execution driven by insights and analytics. The study gives examples of leading retailers and manufacturers that have progressed from the "so what" (insights) to the "now what" (execution). The report points to collaboration as the continued foundation for success along with simplicity, consistency, follow through, creativity, and involvement. The report identifies three drivers of success to move from the "so what" to the "now what":

1. **Insights Based:** initiatives are relevant and delivered via multiple levels
2. **Analytically Driven:** includes shopper-based facts identified by purchase behaviors
3. **Executionally Focused:** recognizes that the store is the critical point of contact and customization is the key going forward

"Insights to action is crucial," comments Ken Harris, CEO, Kantar Retail Americas. "Once strategies are aligned, execution is everything. All elements must be in place at retail to positively influence the shopper to purchase," he adds.

2010 Top Performers

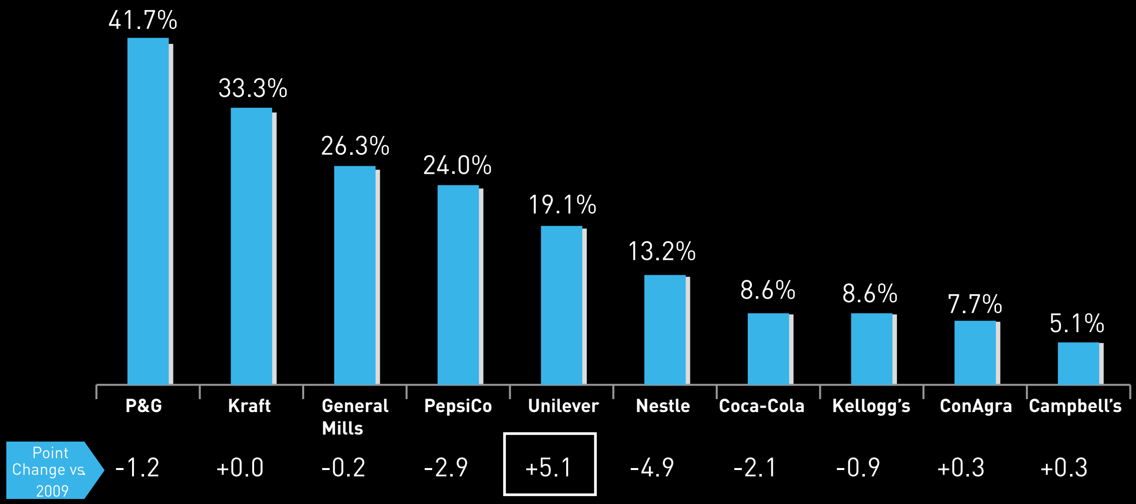
Procter & Gamble maintained its #1 position in 2010, despite a slight decrease in its PoweRanking® composite score. Kraft stayed at #2, as its overall score remained unchanged since 2009. General Mills moved up to #3, surpassing PepsiCo, which dropped to #4. Unilever realized the largest point increase of 5.1, which propelled it from #6 to the #5 spot, switching places with Nestle. Campbell's moved back up into the top 10.

"This year's PoweRanking® demonstrates how vehicles and structures for continuous, proactive communication—both internally and with trading partners—drive superior performance. Unilever is an example of a leader that has excelled at communication in supply chain and shopper insights and solutions."

- Ken Harris
CEO, Kantar Retail Americas

Among manufacturers, the top performers are:

2010 PoweRanking® Composite—Manufacturers



Composite scores are based on rankings in eight key areas where manufacturers interface with retailers. The eight metrics are:

- Clearest company strategy
- Most important consumer brands for retailers
- Best combination of growth and profitability
- Best sales force/customer teams
- Most innovative marketing programs
- Most helpful consumer/shopper insights and category management
- Best supply chain management
- Best shopper marketing programs

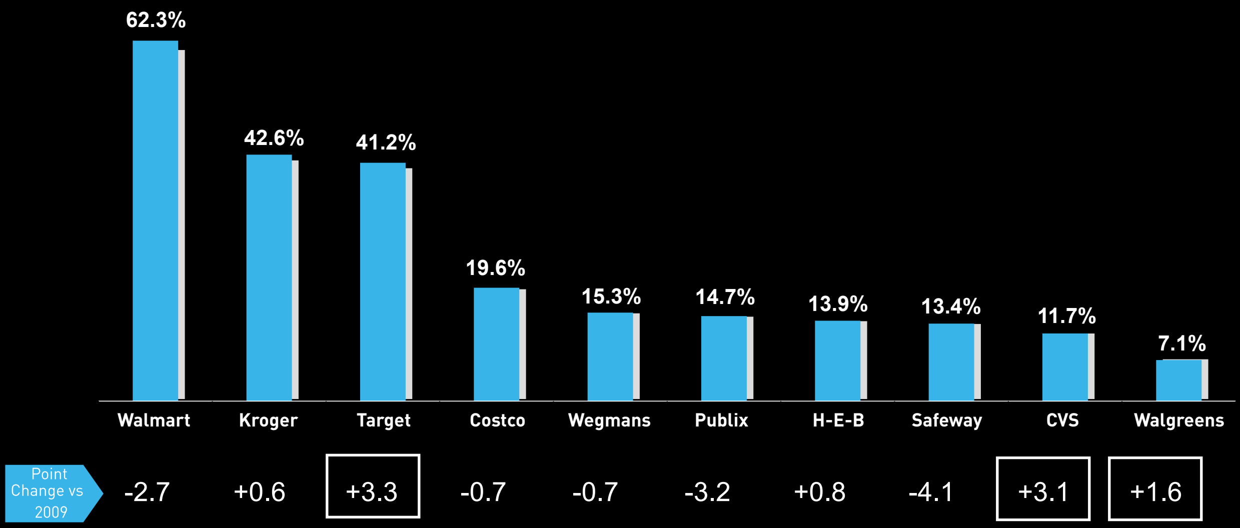
Among the retailers in 2010, Walmart held on to its top position, although other leaders continue to close the gap. Kroger and Target, both with increased scores maintain #2 and #3 rankings, respectively. Target was recognized for its consistent strategy and collaboration with its manufacturer partners. Costco remained at #4, while Wegmans moved up to pass Publix, rounding out the top 5. Drug retailers CVS and Walgreens increased their performance due to clear shopper strategies.

“In this economic environment, value is the new hallmark. The retailers that improved in the PoweRanking® this year were noted for offering value—Target for its relevant programs and CVS and Walgreens for their smaller store positioning.”

- Ken Harris
CEO, Kantar Retail Americas

This year’s top 10 retailers are:

2010 PoweRanking® Composite—Retailers



The ranking criteria for the retailers include:

- Clearest company strategy
- Best at store branding
- Projected power retailers
- Best retailers with which to do business
- Best category management/buying teams
- Most innovative consumer marketing/merchandising
- Best supply chain management
- Best practice category management/CMAR

Study Methodology

The Kantar Retail PoweRanking® study delivers insights into the practices of leading manufacturers and retailers in their working relationships. Each group of manufacturers and retailers ranked the other in eight key areas.

Customized questionnaires were developed for retailers and wholesalers in food, drug, mass merchandiser, and convenience channels and manufacturers in food, general merchandise, and HBC. Questionnaires have been mailed each spring since 1997 to personnel at all levels of management with the assurance of total confidentiality. To provide trended information over time, the PoweRanking® measures are calculated on a rolling two-year basis.

In addition to the PoweRanking® study, Kantar Retail publishes other industry benchmarking studies including Trade Promotion Spending and Merchandising, Category Management/Consumer Marketing at Retail (CMAR) and FoodservicElite®.

2010 PoweRanking® Study

If you are interested in purchasing the complete *2010 PoweRanking Survey: Superior Performance in the New Normal,* please contact:

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BETTER PRICE
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U.S. Economic Indicators: Prices Weigh on Outlook

Frank Badillo / Originally published on November 10, 2010

While prices remain the key factor weighing on the short-term outlook, the decisions of key players from the Federal Reserve Board to Walmart also are shaping the course.

The trends continue to indicate that Walmart's bid to reassert its low-price leadership role will cause price-cutting pressures to migrate across channels and categories and exacerbate promotional pressures. This will contribute to the softer growth (vs. earlier this year) of about 2.5% that Kantar Retail forecasts for retail sales (excluding the auto and fuel channels) through the holiday and into 2011.

Retail price trends are among the deflationary pressures in the economy that are prompting new intervention by the Federal Reserve Board. The Fed's expected "quantitative easing" involves buying Treasury bonds (and perhaps mortgage securities), which has the effect of injecting new money into the economy. The larger supply of money, if spent, should then translate into stronger demand that pushes prices higher.

There will be benefits and risks to this anti-deflation campaign. Beyond benefitting retailing, benefits could accrue to the housing market, which can use any help that keeps home prices on track to pull out of a nose dive—particularly in the wake of problems slowing the foreclosure process by banks.

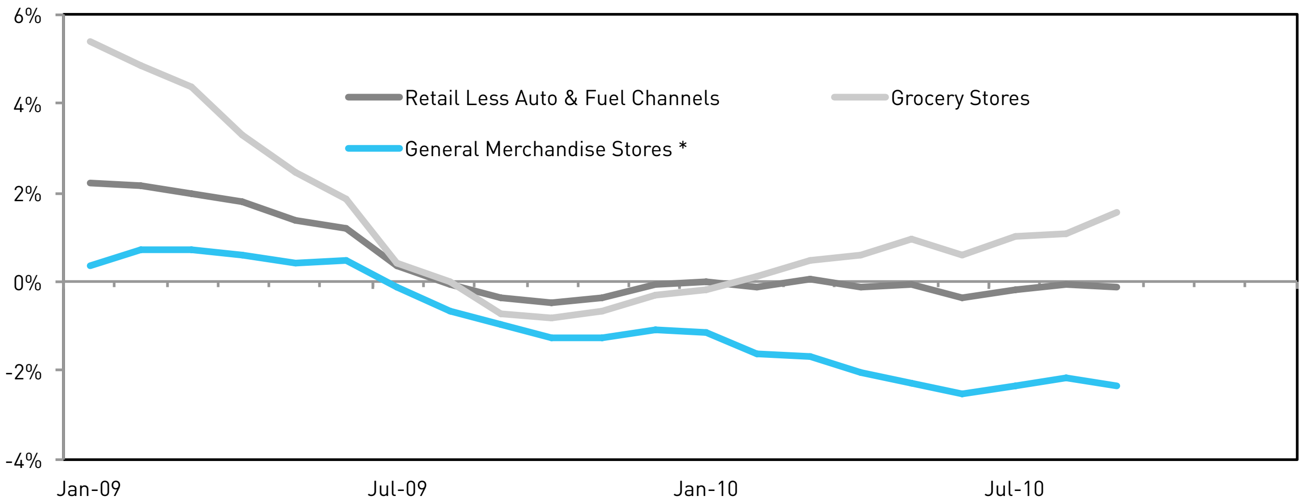
The potential risks start with the possibility that the price inflation encouraged by the quantitative easing could occur anywhere. It could renew the movement of speculative money into commodity investments, like that which drove the inflationary spike in 2007 and 2008. Also, there is the risk that the deflationary fears are overblown and the Fed action will only feed unwanted inflation down the road.

The risks, however, appear to be outweighed by the need to bolster investor and consumer confidence and boost stubbornly slow job growth. As a result, this latest Fed action should help ensure that the slow recovery gains traction in 2011—and ensure that the holiday will be just a soft spot in the economic recovery.

Price inflation by retail channel. The retail price-deflation threat has been developing since around July 2009 (Figure 1). It's been since then that prices have been flat or falling at an aggregate level for retailing excluding the auto and fuel channels. The downward pressure on prices has been focused in the general merchandise store channel (as tracked by the government), which largely comprises discount department stores, supercenters, and warehouse clubs. These are the channels in which Walmart has a dominant influence—which points to the key role Walmart is playing in driving price-cutting pressures.

Despite the fact that grocery store prices are higher on a year-to-year basis, the recent month-to-month trends have suggested that price competition from Walmart in food categories has been keeping a lid on grocery store prices over much of this year. That competitive balance appeared to shift in September, however, as grocery store prices climbed higher on a month-to-month and year-to-year basis. It seems unlikely that grocery stores will be able to sustain the price increases as long as prices continue to fall at supercenters and other mass retailers.

Price increases have already proved unsustainable at apparel and home improvement stores, both of which have seen prices fall off on a month-to-month basis in recent months through September after posting price increases early in the year. In both those cases, prices have eased as demand has subsided from the spring sales surge. Additionally, weaker lumber prices brought about as the housing market has cooled in the aftermath of the home buyer's tax credit have dampened home improvement store prices.



*Includes department stores (discount and traditional), supercenters, warehouse clubs, and small-format value retailers

Figure 1: Price Inflation by Retail Channel (Seasonally Adjusted, Percent Change Year-to-Year)
Source: U.S. Department of Commerce and Kantar Retail

Consumer price trends. The deflationary pressures evident in certain retail channels are less pronounced in the overall consumer price indices. Although outright deflation has yet to emerge at that aggregate level, of some concern is that that core consumer price inflation (including service categories) has trended from about 2.5% in past years to less than 1.0% recently. The trends, however, are only slightly accelerated compared with a similar environment in 2003—and in some ways less ominous than that period in terms of overall goods prices outside of food and energy.

Much of the recent deflationary pressure has been focused in food at home during the past year, but that has turned to inflation recently on a year-to-year level. The threat of renewed food deflation depends partly on whether Walmart's stepped-up price competition in food categories will outweigh supply-side cost pressures that are building. Outside of food and energy goods, the deflation threat is not as evident in the aggregate price trends for other goods largely because inflation is currently focused in specific categories such as autos. Additionally, it is possible the deflationary threat will be confined to the general merchandise categories in which Walmart aims to be more price competitive in the months ahead.

Foreclosures and home prices. Home prices represent another key price trend where the Fed would hope to sustain a reversal by its latest intervention. The evidence that home prices have started to climb again is still somewhat mixed, depending on the measure. Broad-based evidence of a recovery in home prices will likely lag further because of the recent delay in foreclosures due to improper paperwork.

Clearing the backlog of foreclosed homes is critical to a recovery in home prices and ultimately the housing market and overall economy. Rising home prices will stabilize the economy by boosting household wealth and removing doubts about the value of mortgage securities that continue to hang over the US financial system. If the foreclosure delays are not resolved relatively quickly, they will further delay a recovery in the housing market and create a bigger drag on the overall economy. However, it should be in the interest of all involved not to let the issue degrade into a renewed financial crisis. As a result, the foreclosure slowdown should not derail the recovery, but it should be among the factors that keep it on a slow path into 2011.

Mixed job market trends. Whether it is retail prices or home prices, the weak price environment largely reflects the buyers' market that prevails amid a weak job market. The various top-line job market measures continue to provide mixed signals about a jobs recovery (Figure 2). The unemployment rate has fallen only slightly through September from its peak in October 2009. Unemployment claims resumed a decline in September after rising slightly in August. In addition, jobs at an aggregate level have fallen since May primarily because of the loss of temporary Census jobs.

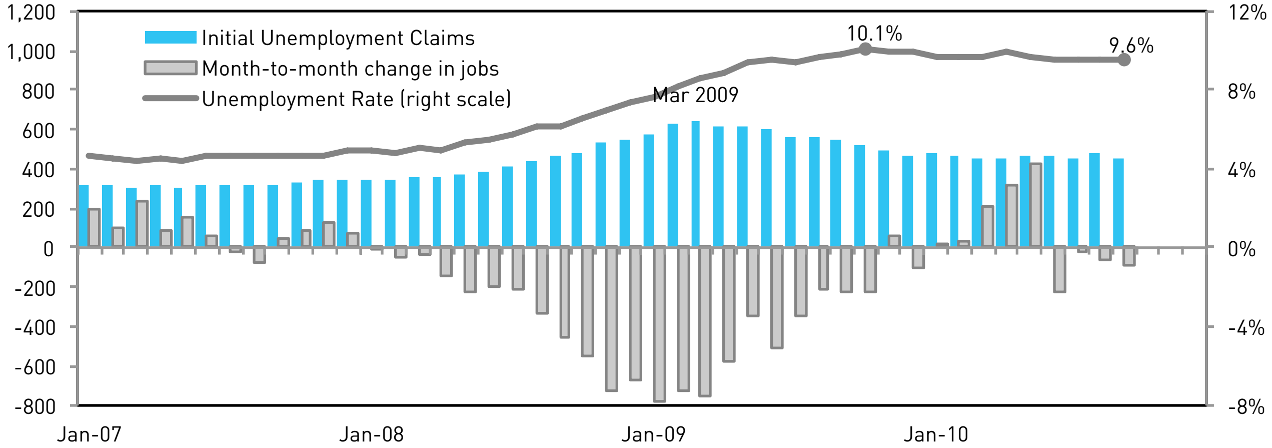


Figure 2: Job Market Measures (Jobs and Claims are in Thousands, Seasonally Adjusted)
Source: U.S. Department of Labor and Kantar Retail

The underlying job market trends are more encouraging, however, when recent temporary effects are excluded (Figure 3). Excluding the impact of government census jobs, private sector jobs have grown each month since the start of 2010. Job growth also is slightly better when further excluding construction jobs, which saw a temporary benefit from the jump in home construction driven by the home buyer's tax credit.

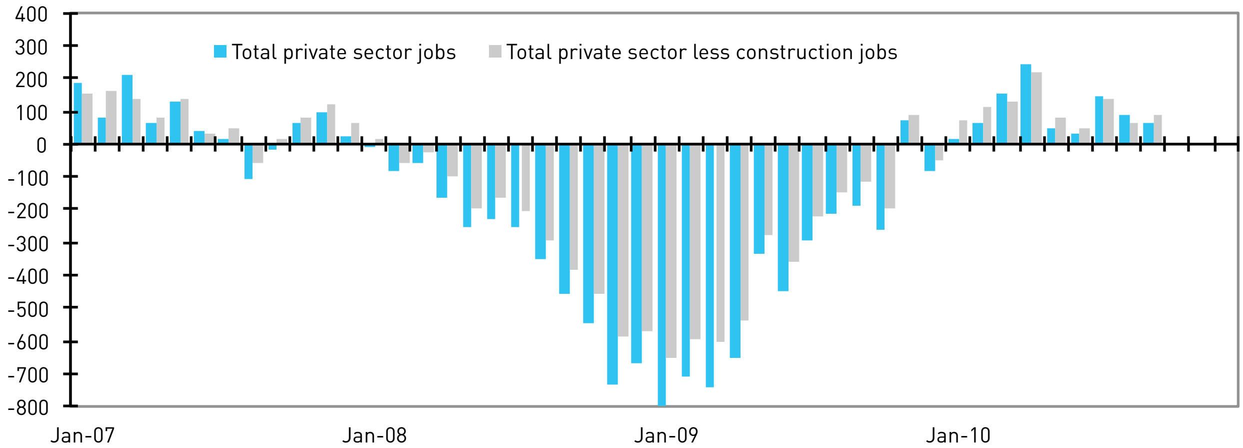


Figure 3: Private Sector Jobs (Month-to-Month Change in Thousands, Seasonally Adjusted)
Source: U.S. Department of Labor and Kantar Retail

Foreshadowing in unemployment claims? Initial unemployment claims are typically a good leading indicator of the job market and the overall economy. If the latest claims data prove to be more than just a blip, then they may signal that a turning point toward a stronger jobs recovery is on the horizon. The numbers show a drop-off in continuing claims in mid-October that appears to be a break with the previous trend. The latest data also show that initial claims have dropped in late October to one of the lowest levels of the year. These results could prove to be a temporary blip, but they are consistent with trends in business earnings and investment that point toward stronger hiring at some point in the future.

Jobs weigh on consumer confidence. Without clear signs that a stronger jobs recovery is at hand, consumer confidence remains stuck in an 18-month holding pattern (Figure 4). Confidence also remains split between somewhat better expectations for the future and a weak opinion of the present situation. The pickup in future expectations that has led the modest recovery has stalled since May 2009. Meanwhile, consumers' opinion of their present situation remains near the level it tumbled to in February 2009 at the low point of the recession. Until these consumer confidence levels shift into higher gear, the pace of retail sales is likely to remain modest through the holiday and into the start of 2011.

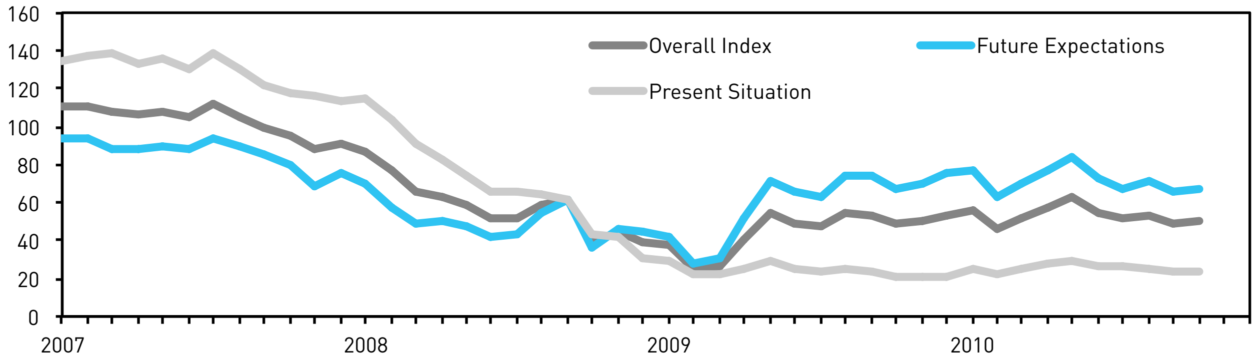


Figure 4: U.S. Consumer Confidence Index (1985=100, Seasonally Adjusted)
Source: Conference Board and Kantar Retail

Non-store leads general merchandise channels. Retail sales excluding the auto and fuel channels kept a healthy pace close to 4.5% in the third quarter of 2010 for a second straight quarter. Retail sales growth was led by non-store retailing, specialty apparel stores, and the homegoods sector, which were at or above average retail sales growth through the third quarter (Figure 5). Non-store retailing—led by the online channel—grew at a double-digit pace for a third straight quarter. The homegoods channels—which include furniture, home furnishings, consumer electronics, appliance, home improvement, and other specialty homegoods retailers—slowed from their second-quarter peak growth. The specialty apparel store channel eased for a second straight quarter from its first-quarter peak growth.

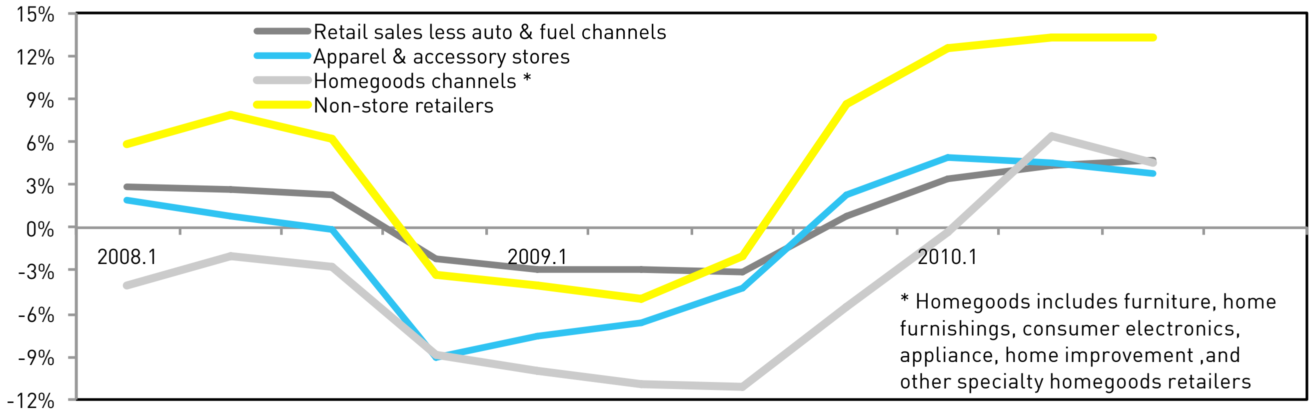


Figure 5: Apparel, Homegoods, and Non-store Channels (Percent Change Year-to-Year, Not Seasonally Adjusted)
Source: U.S. Department of Labor and Kantar Retail

Dollar stores lead food, drug, and mass channels. Dollar stores and other small-format value retailers are leading growth among mass retailers, including warehouse clubs and supercenters (Figure 6). Supermarkets, restaurants, and drugstores—the food and drug channels—now lag overall retail growth after leading retail sales growth through the recession. Discount department stores have led the declines in the combined department store channel, which also includes conventional department stores.

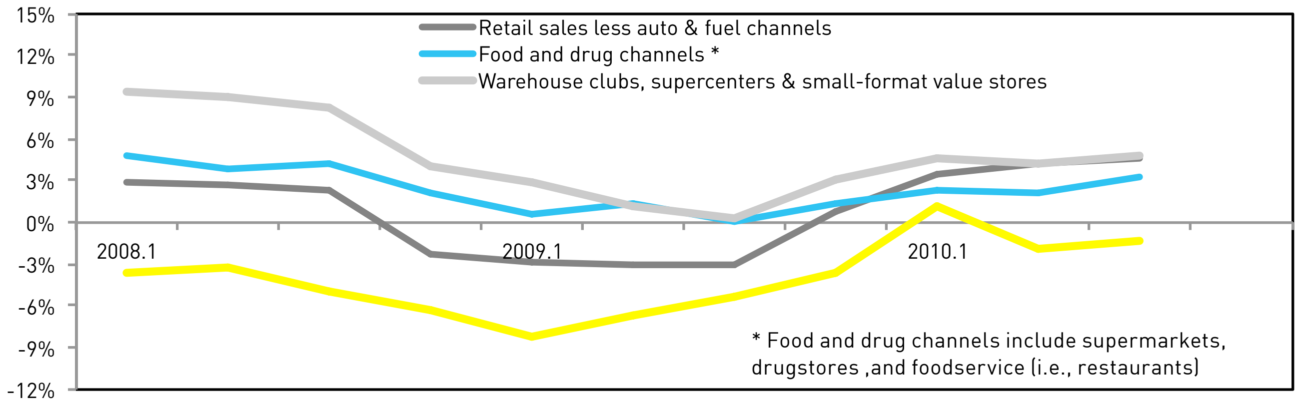


Figure 6: Food, Drug, and Mass Channels (Percent Change Year-to-Year, Not Seasonally Adjusted)
Source: U.S. Department of Labor and Kantar Retail

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European Retail Outlook

H2 2010: A Period of Austerity

By Himanshu Pal / Originally publish on July 16, 2010

In our previous article assessing Europe's economic indicators (published February 2010), one key conclusion was that although the European economy was doing better versus Q4 2008, the recovery was fragile and a double-dip recession was still possible. We explored the stagnated-cum-fragile growth in key economies and highlighted potential troublemakers. The events of H1 2010 have substantiated our hypothesis and have been significant in many ways—ranging from the Greek sovereign debt crisis, to diminishing value of the euro and pound sterling, to rising unemployment rates, and to the ballooning size of the fiscal deficits across European states.

So, where does the European economy go from here? The key lies in realisation: The European Commission (EC) and the member states have slowly but surely realised the pan-European impact of years of economic mismanagement compounded by the economic downturn of 2008–09. The sovereign debt crisis in Greece and its impact on the value of the euro sounded a chilling reminder to all Euro Area (EA) member states that they share the benefits of a common currency yet the liability of each other's economic health. This realisation has drawn the EC and governments all across Europe to implement probably the toughest economic reforms since World War II. Among a plethora of economic reforms, the word austerity stands tall and dominates all discussions. Aimed at combating spiralling fiscal deficits and restoring investor confidence in various state and euro bonds, EC and states governments have undertaken multi-billion euro austerity measures.

GDP Growth: Slowly but Surely Improving

On a quarter-to-quarter comparison, both the EA and the EU witnessed similar GDP growth of 0.2% in Q1 2010, versus 0.1%, and 0.2%, respectively, during Q4 2009—with all major European economies delivering slow yet positive growth (Figure 1). Among the top 5 EU member states, Italy reported the highest quarter-to-quarter GDP growth of 0.5%, which is a marked improvement over its performance of -0.1% during Q4 2009. Although economic growth across Europe is slower than what many expected, we believe it's in line with the market conditions. We also expect GDP growth to remain fairly subdued at least in the remainder of 2010 and early 2011, as a result of drastic public-spending cuts and the diminishing effect of economic stimulus packages that were rolled out in 2009.

The year-over-year GDP growth performance looks more promising, especially due to weaker year-ago comparisons (Figure 2). On a year-over-year comparison, the EA and EU reported GDP growth of 0.6%, and 0.5%, respectively, during Q1 2010. Among the key EU member states, Germany, France, and Italy reported positive GDP growth, while figures from the UK and Spain were still in the red. Although the economic situation in the Baltics has improved versus Q4 2009, the region witnessed another quarter of economic contraction with year-over-year GDP growth of -5.1%, -2.6%, and -2.3%, respectively, during Q1 2010. The decline follows the withdrawal of foreign investment, reduced exports, and deep cuts in public spending, with the last aimed at lowering the budget deficit.

The intrinsic relationship between GDP growth and the consumer and business variables that impact retail sales is indeed a cycle: An improvement in the economic situation prompts consumers to spend more (with reduced propensity to save), which in turn means increased retail sales that prompt retailers to invest and expand more thus creating more employment. More employment means increased domestic output (GDP) and more consumer confidence propelling another wave of increased spending—and it goes on and on. Unfortunately, it works the

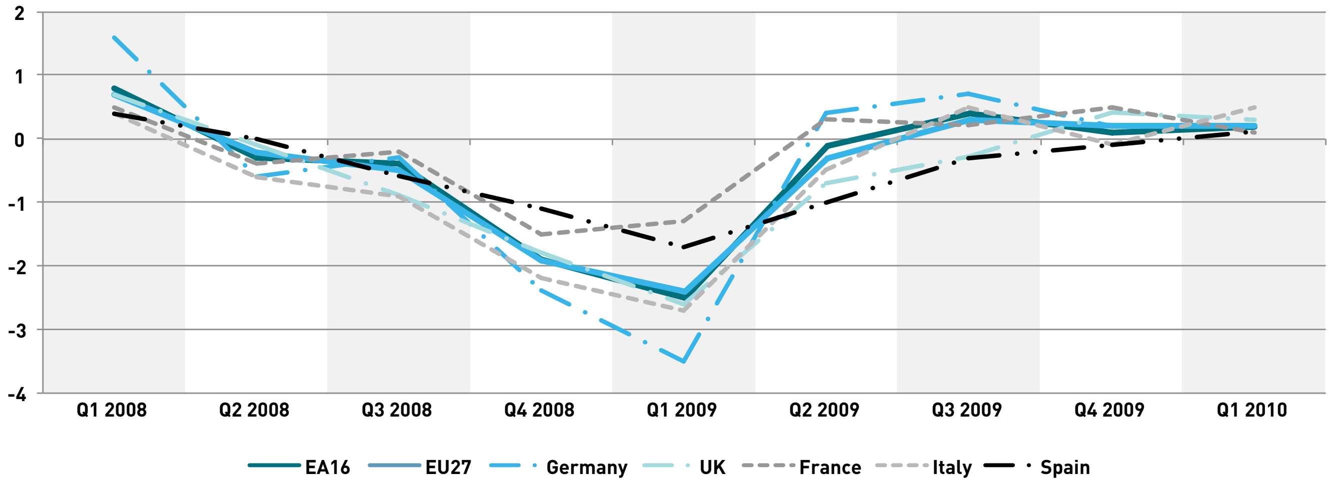

Figure 1: GDP Volume Growth (% change versus previous quarter) / Source: Eurostat

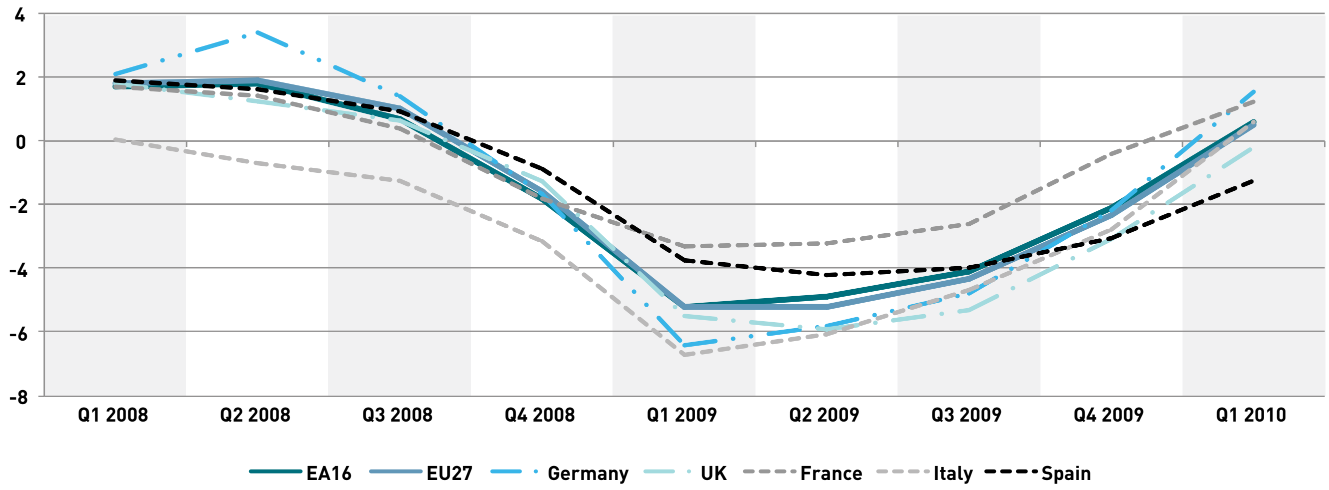

Figure 2: GDP Volume Growth (% change versus same quarter in the previous year) / Source: Eurostat

other way around as well: If the economic situation worsens, it triggers a spiralling downward trend. We at Kantar Retail believe it's important to look at each market separately and individually. It's not only difficult to paint a uniform picture for the whole of Europe, but that also might present a slightly misleading picture.

The Biggest Stumbling Block: Fiscal Deficit

Fiscal deficits are primarily to blame for the multi-billion austerity measures across Europe. Over the last couple of years, fiscal deficits across key European economies have put increased strain on government finances, jeopardizing their ability to honour financial obligations—including repaying debt—which has a direct bearing on a country's credit ratings, ability to raise more funds, and currency valuation. During 2009, the EA and EU fiscal deficits as a percentage of GDP increased to 6.3% and 6.8%, respectively, much higher than the 3% cap suggested by the EC.

All key EU member states have breached the fiscal deficit cap set by EC, with economies such as Ireland, UK, and Spain reporting fiscal deficit (as a percentage of GDP) at 14.3%, 11.5%, and 11.2%, respectively, in 2009. A quick comparison with Greece's fiscal deficit of 13.6% during 2009 highlights the potential danger for other economies. The events of H1 2010 highlight the adverse impact of fiscal mismanagement on the credit rating of government bonds and ultimately currency valuation.

Country	Austerity Measures	Expected Benefits
Germany	▪ 10,000 government job cuts over four years ▪ Higher taxes on nuclear power ▪ Reduced public spending	Reduce budget deficit by EUR 80 billion by 2014
UK	▪ Increase Value Added Tax (VAT) from 17.5% to 20.0% in January 2011 ▪ Increase capital gains tax from 18% to 28% for higher-rate taxpayers ▪ Salary freeze for public-sector workers earning over GBP 21,000 for next two years; a flat pay-raise worth GBP 250 in both years for workers earning less than GBP 21,000 ▪ Introduce bank levy that will apply to the balance sheets of UK banks, building societies, and the UK operations of foreign banks in January 2011	Budget savings of GBP 6.2 billion in 2010–2011
France	▪ Pension and Income Tax Reforms: – Increase retirement age from 60 to 62 years – Employees required to work longer to qualify for state pension ▪ Additional 1% income tax for high-income group	Reduce spending by EUR 45 billion over the next three years
Spain	▪ Cut public investment by more than EUR 6 billion – 5% cut in public-sector pay starting June 2010 – Freeze on salaries until end of 2011, along with freeze on some pensions – End EUR 2,500 cash payout for new mothers, known as "baby cheques"	Reduce spending by roughly EUR 15 billion in 2010–2011
Italy	▪ Cut in public sector pay and freeze on pay increases for next three years ▪ Progressive pay cuts of up to 10% planned for high earners in the public sector, including ministers and parliamentarians ▪ Cut in public-sector hiring, replacing only one employee for every five who leave ▪ Retirement to be delayed by up to six months for those who reach retirement age in 2011 ▪ Reduce funding to city and regional authorities by more than EUR 13 billion	Reduce spending by EUR 24 billion in 2011 and 2012
Greece	▪ Scrap bonus payments for public-sector workers ▪ Freeze public-sector salaries and pensions for at least three years ▪ Increase average retirement age from 61.4 to 63.5 years ▪ Increase sales tax (VAT) from 19% to 23% ▪ Raise taxes on fuel, alcohol, and tobacco by 10.0%	Cut budget by EUR 30 billion over three years Reduce fiscal deficit from 13.6% of GDP to below 3.0% by 2014
Ireland	▪ Public-sector salaries cut by at least 5% ▪ Reduced government spending on social welfare (down EUR 760 million) and investment projects (down EUR 960 million) ▪ Child benefit reduced by EUR 16 per month ▪ Introduced a carbon tax, set at EUR 15 per ton of CO2	Reduce government spending by EUR 4 billion in 2010 Work toward reducing the fiscal deficit to 2.9% by 2014

Table 1: Austerity Measures Announced by Some EU Member States / Source: Kantar Retail analysis

A Bitter but Effective Medicine: Austerity

As Greece's inability to honour its debt obligations became increasingly certain and with similar fault lines surfacing in other fragile European economies, the EC announced a massive EUR 750 billion safety net to stop a further drop in the euro and save the European economy from descending into utter chaos. The safety net draws contributions from the EU member states (EUR 500 billion), primarily for the EA member states (EUR 440 billion), the EC (EUR 60 billion), and the IMF (EUR 250 billion). In return for the bailout package, the EU member states were asked to provide details of austerity measures to reduce fiscal deficits and bring the deficits in line with the EC norms. The austerity measures primarily target a sharp reduction in public-sector spending and higher tax collection.

Although these austerity measures are needed to reduce fiscal deficits and lend stability to the euro, they come at a price. Sharp cuts to public-sector spending could very well result in higher unemployment, lower personal disposable income, and reduced credit availability that might depress consumption and investment activity thereby undermining the overall EU recovery.

Unemployment Continues to Rise, Is Set to Increase Further

Unemployment rates increased in both the EA and EU during Q1 2010. While the EA experienced an unemployment rate of 10.1% during April 2010 versus 9.9% in December 2009, the EU witnessed the rate increase 30 basis points (bp) to 9.7% during the same period. The current unemployment rates are the highest in the EA since August 1998 and in the EU since January 2000.

Eurostat estimates that roughly 23.3 million people were unemployed in the EU at the end of April 2010, with the number of unemployed increasing 2.4 million as compared with April 2009. We expect the unemployment rate to increase further in the remainder of 2010 especially in the public sector, which will bear the brunt of the proposed austerity measures.

Inflationary Conditions Continue

Inflationary conditions continued to prevail in both the EA and EU, with all major economies registering an increase in prices during Q1 2010 (Figure 3). While inflation in the EA increased to 1.6% during May 2010 from 0.9% in December 2009, the consumer price index (CPI) increased 50 bp to 2.0% during the same period. We believe inflation will continue to rise at least until Q4 2010, when the surplus liquidity starts to drain out of the market as a result of interest-rate hikes, reduced public spending, and a rollback in economic stimulus.

Recovery Boosts Consumer and Retailer Confidence

Although both consumer and business confidence in Europe have improved versus the same period last year, it has been slightly marginalised over the last few months with growing fears regarding the Greek sovereign debt crisis, depreciation in the euro's value, an uncertain political future, and escalating fiscal deficits.

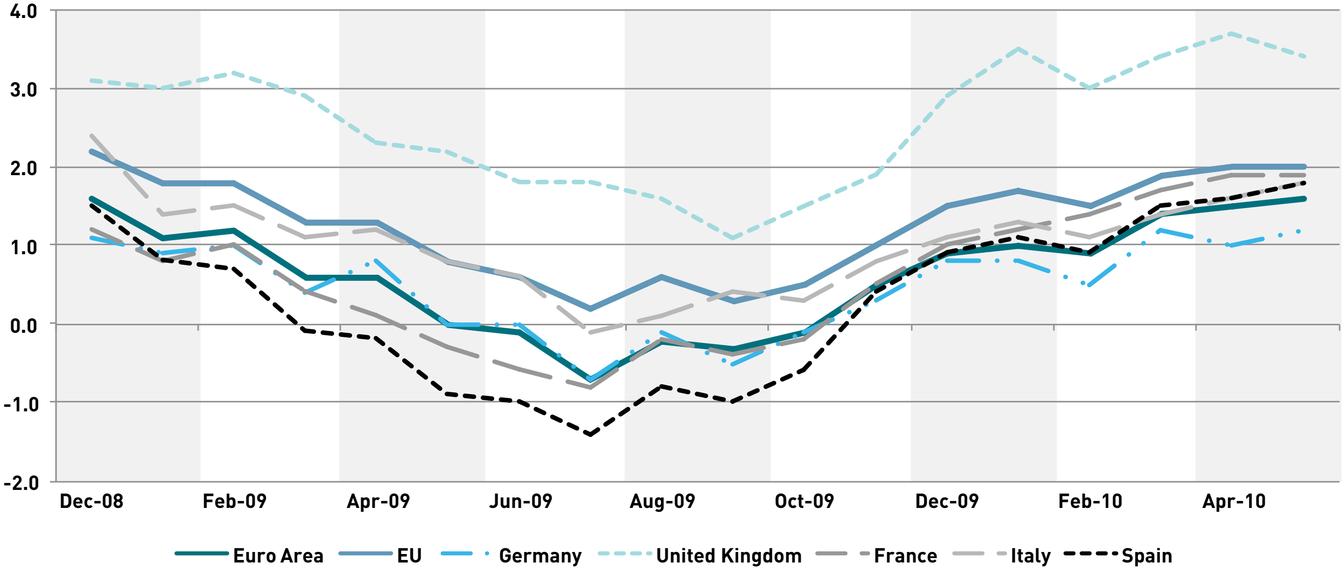

Figure 3: Inflation / Source: Eurostat

The consumer confidence index in the EU improved to -12.3 during April 2010, as compared with -14.3 and -27.9 during December and April 2009, respectively. Similarly, the retail confidence index in the EU improved to 0.3 during April 2010, versus -6.4 and -21.1 during December and April 2009, respectively. Although the proposed austerity measures and economic reforms are likely to dampen consumer confidence in the short run, with higher taxes and curtailed public spending putting a strain on consumer wallets, we remain positive in regards to the medium- and long-term outlook.

What About Retail?

Consumers and retailers are feeling relatively better about economic prospects as compared to Q4 2009 and Q1 2009. However, consumer confidence has been contained due to the tension arising from the Greek debt crisis. The drop in consumer confidence during the latter part of Q1 and early Q2 2010 was evident in the drop in retail trade volume during April 2010 versus March 2010 for both the EA and the EU. Having said that, retail trade volume has picked up in Q1 2010 (Figure 4). On a year-over-year growth comparison, retail trade volume in the EU improved roughly 0.1% during Q1 2010, versus -1.5% and -3.5% during Q4 and Q1 2009, respectively.

The UK, France, and Italy witnessed average year-over-year retail trade volume growth of 0.5%, 2.2%, and 1.1%, respectively, during Q1 2010. Spain and Germany, however, reported a year-over-year decline of -1.0%, and -1.2%, respectively, during the same period. The Baltic countries, along with Bulgaria and Romania, were among the worst performers during Q1 2010.

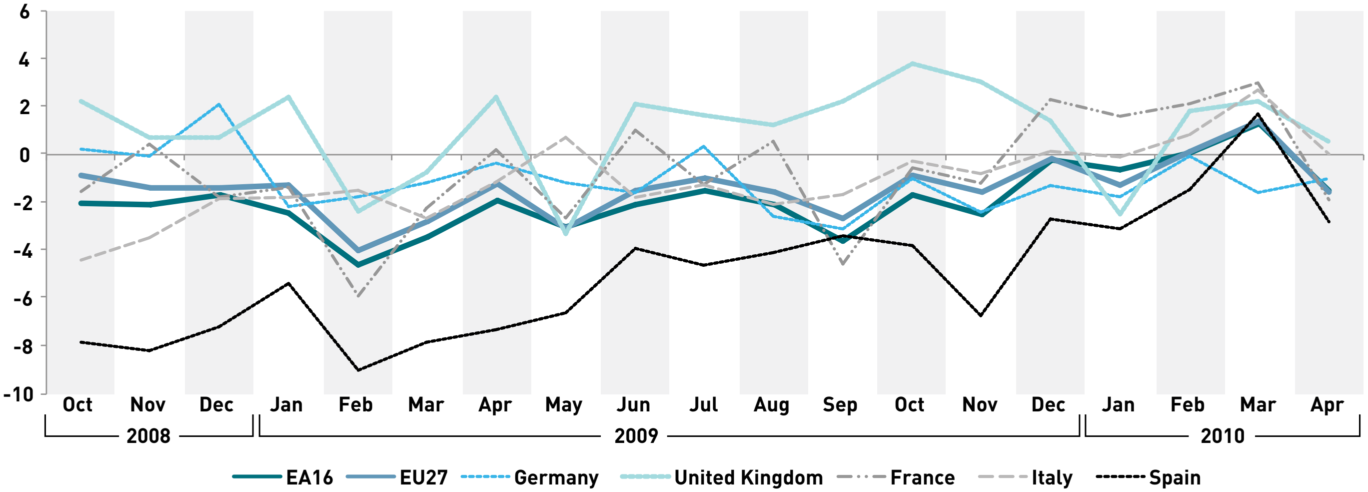

Figure 4: Retail Trade Volume (year-on-year percentage change) / Source: Eurostat

During Q1 2010, the growth in non-food products outpaced the corresponding growth in food—primarily due to the higher prices of food products. Within the EU, retail trade volume for non-food products increased roughly 1.2% year-over-year in Q1 2010, as compared to 0.5% growth in food. For the remainder of 2010, we expect sluggish growth in retail trade volumes for both food and non-food as higher taxes and reduced public spending leading to lower personal disposable income compel shoppers to rein in their spending.

Kantar Retail Point of View

Kantar Retail believes that the worst is indeed over for the European economy, and we expect the recovery to be slow yet unidirectional. Although the austerity measures might seem harsh, they are definitely needed to put economic fundamentals back on track. While we expect to see consumer confidence in the short-to-medium term slow, thereby resulting in sluggish retail sales growth, we are optimistic about the economic outlook in the long run—especially for H2 2011.

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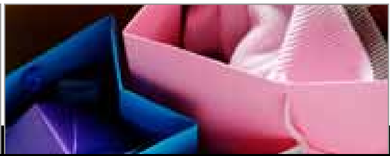

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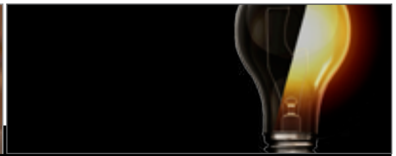

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