

A woman with dark hair tied back, wearing a light pink sleeveless top, is sitting at a wooden table. She is smiling and looking down at a white smartphone held in her hands. In front of her is a white bowl filled with green salad, including lettuce and tomato slices. To the left of the bowl is a glass jar of jam with a white string tied around its neck. The background shows a wooden chair and a window with white curtains. The entire image has a soft, muted color palette.

criteo.

CPG & Grocery trend report.

Clicks, bricks & broccoli

United States: Q1 2017

Preface

There are no more valuable ecommerce carts than those devoted to grocery. Unlike every other category, grocery has no true seasonality of purchase. The items bought may vary between holidays like the Fourth of July and Christmas, but, chances are, shoppers will place that liter of cola in their carts each week no matter what time of year it is. Online grocery is finally starting to take off in the U.S. thanks to a desire for simpler lives and

the fact that it is the last frontier of ecommerce. Online grocery is the only area expected to grow in CPG sales over the next few years. Brands in this category need to adapt their marketing practices, honed through decades of experience, to engage with their customers online in a new way in order to make it into those all-important persistent carts of their dreams.



Key findings



Nearly half (46%) of Baby Care purchases are made on impulse.



40% of eGrocery purchases are made on mobile phones.



43% of eGrocery shoppers searched online for a coupon (the highest percentage of any promotional activity).



\$132.23 was the average eGrocery cart value of Q3 2016.

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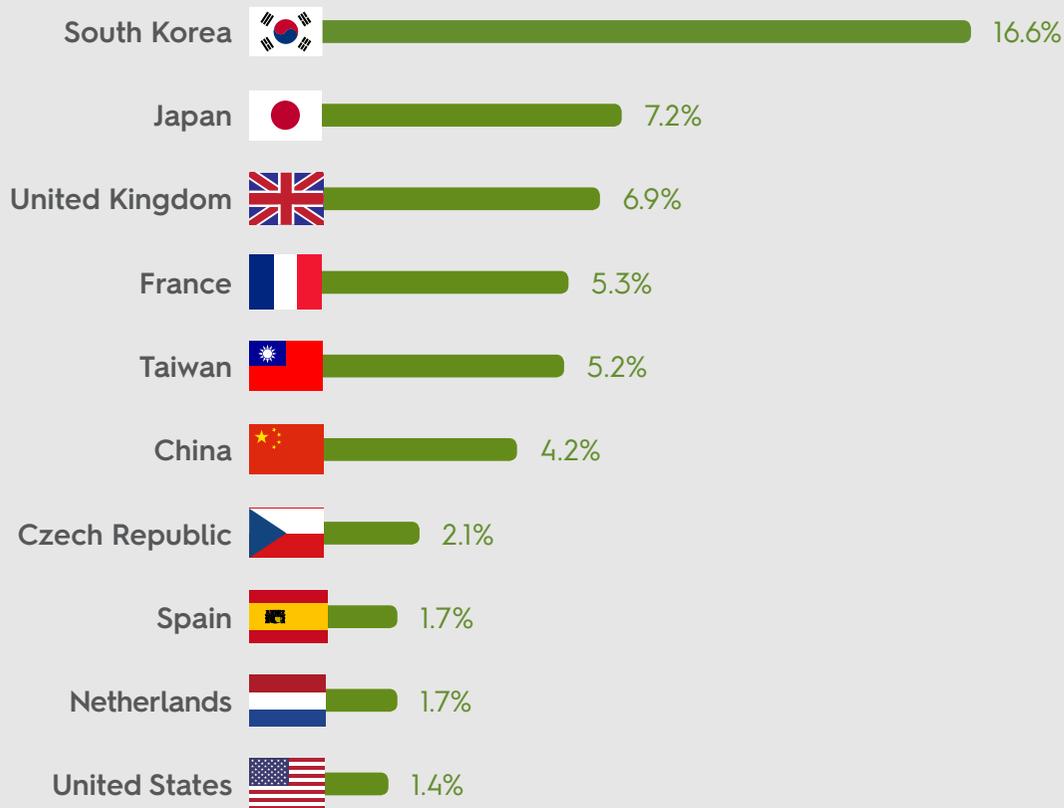
Category trends.

Trends and challenges

- **Top rank persistence.** Upstart brands like Green Mountain Coffee and Tom's of Maine have become category killers due to the fact that, in search, when a product achieves top rank, it is difficult to knock it off that position.
- **No end caps.** There simply is no way to replicate what brands have had with end-aisle promotions that inspire impulse purchasing.
- **No check-out displays.** Same issue as above. How will you sell gum and candy if they aren't captive in the check-out line?
- **Limited "shelf-space".** Mobile provides a limited field of vision – and, for the first time this season, it overtook desktop or laptop for shopping. Mobile makes up on average around one third of all purchasing, and those numbers get even higher on the weekends.
- **Persistent carts – good and bad.** Shopping lists are even more important online as consumers often shop from archived lists, especially if they have a year's worth of carts available. Why start from scratch at the holidays if you already have a list with canned pumpkin and baking chocolate on it?
- **Fulfillment and delivery expense.** Webvan tried to revolutionize grocery in 2000 by taking on the Sisyphean task of building fulfillment houses. Amazon successfully launched Amazon Pantry in 2014 and Amazon Fresh in 2007 (it's been one long beta) but then tanked its business by increasing prices and introducing a \$299 annual membership fee. (They rescinded the onerous pricing policy in 2016 and are back and running with a lower delivery fee again.)
- **Promotional activity and couponing.** With the decrease in use of FSIs and the rapid emergence of online coupon sites, will marketers achieve the same reach?
- **For pure play, no footprint.** Bricks and clicks retailers like Shop 'n Shop have a distinct advantage over pure plays as they have a retail footprint to use as a collection point and keep shipping costs and prices competitive. But Fresh Direct, Boxed and Jet are more than standing up to the challenge, either through retail partnerships (Jet is owned by Walmart) or through lockers for click-and-pick services like Instacart has with Whole Foods
- **Consumer-directed shopping process rather than guided traffic of supermarket.** Supermarkets, which rose to prominence in the post-war boom years of the suburbs, are an absolute science in terms of where products are positioned and how they are promoted with signage, including shelf talkers. With online, a consumer goes to the site and decides how to shop; there is no standard layout with the frozen section at one end and fresh at the other. eGrocery sites are continuously tweaking how they position products and how they categorize them. As of yet, they have not figured out how to replicate the carefully guided experience of a supermarket
- **It's raining meal kits.** Capitalizing on the need for convenience, but also the desire for fresh and homemade, meal kit vendors have proliferated. What have sites like Fresh Direct and Peapod, and brands like Barilla, learned from the meal kit explosion? Sales in 2016 were estimated at \$1.5 billion. Subscription services, like those persistent carts, are very important for brands and retailers, as busy working moms like to "set it and forget it" Brands should be making connections with kit sellers like Blue Apron, Plated, Purple Carrot, Peach Dished, Chef'd, FreshRealm, Green Chef, Home Chef and Daily Harvest Alliances with these services will help increase brand loyalty with busy Millennials, who will become the target demo over the next few years.
- **How to measure it.** Brands are used to GRPs and Reach & Frequency tied to media mix models, but how will they measure effectiveness in a click-based world? Offline "share of shelf" measurements are pivotal. This type of analysis is in its formative stages for CPG online, but expect the use of it to grow.
- **Amazon generics.** The elephant in the room, Amazon generics pose the biggest challenge to brands selling online. But the important thing to note is that Amazon is playing catchup in terms of ability to easily and cheaply distribute as it does not yet have a retail footprint When it was leaked in Business Insider in Q4 that Amazon had plans for 1,200 convenience centers, the ears of major grocery chains pricked up. To date, Amazon has generics for electronics like batteries (Amazon Basics), kitchen equipment (Pinzon Kitchen Gadgets), baby products (Baby Bear) and coffee (Happy Belly).

The United States has a long way to go in eGrocery, but what promise!

Top markets in estimated ecommerce share of the FCMG market

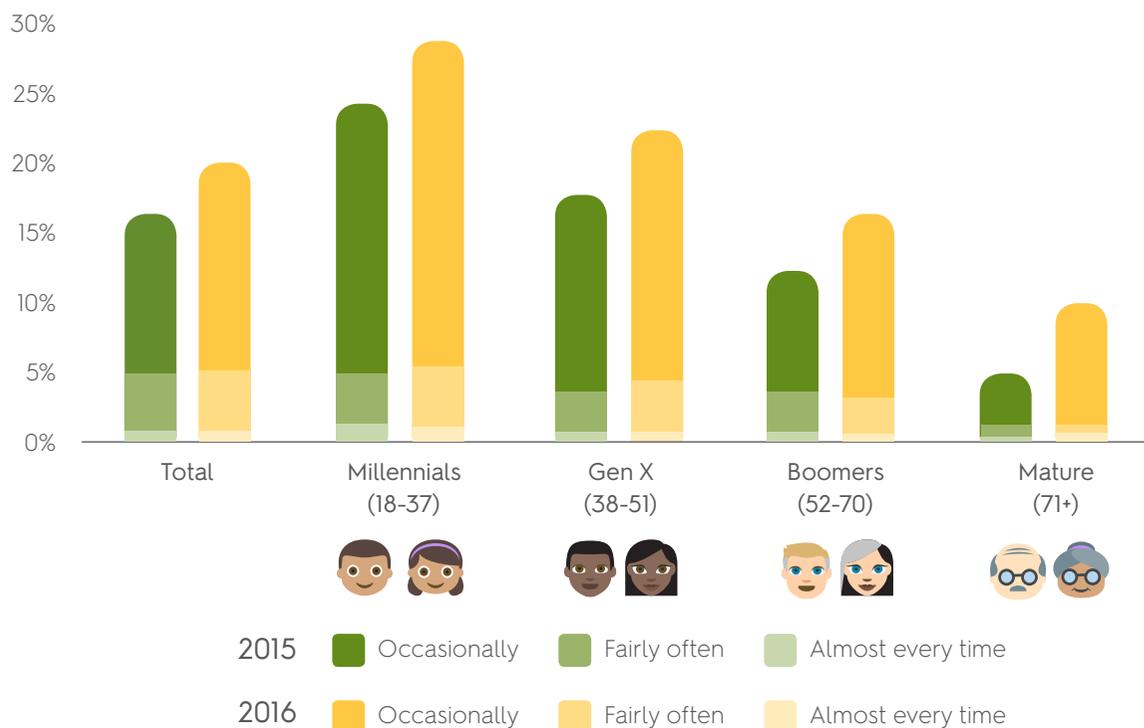


Online grocery varies radically in market penetration. South Korea, the land of Samsung and LG, with universal broadband (and their self-ordering fridges), has the highest penetration by miles. They are followed distantly by the U.K. and France.

Kantar Worldwide found that South Korea, where online sales account for 16.6% of the FMCG market, leads the way in digital penetration of grocery sales.

Fresh eGrocery is expected to grow in the U.S. from 8% penetration of online shoppers in 2016 to 26% in 2017, while staples will increase in penetration from 16% last year to 28% this year, according to Morgan Stanley (more than 25% of online shoppers will have purchased in this category).

Frequency of shopping online-only grocery retailers



Source: FMI Grocery Shopper Trends, 2016, C1: "When you need grocery type items, how often do you shop in person or online at each of the following? [Online-only stores]." 2016: n=2,061. 2015: n=2,265.

The Millennial factor: A generation that grew up online gets serious about groceries

Marketers of consumer packaged goods are well aware of the pig in the python of demographics: Millennials. As countless studies have shown, this is the generation that grew up online and they are larger in size than the Boomers. When single, they are the ones who helped Yelp and Seamless take off, and are now the primary purchasers of all those meal delivery services.

As they have children of their own – and as the majority of them who are moms work – convenience becomes even more important to feed their families.

As research has shown, their decisions are not necessarily aligned with the choices their moms probably made with Gerbers, Enfamil, BeachNut, Pampers and Huggies. Walmart has scored with their Equate house brand and Costco has done the same with Kirkland.

Working moms, stay at home dads

While the majority of moms do work outside the home and the sheer number of single moms in the U.S. is massive, how much labor sharing is going on in dual-income households? Do men make grocery lists or just respond to their partners' brand loyalties? Statistics are showing that, yes, it is changing. The primary household shopper indeed could be a man. It's not common yet, but will be. Millennials are very involved parents; that's how their parents were. According to the U.S. Bureau of Labor Statistics, in 2016, 85% of all U.S. adults said that they did 50% or more of the grocery shopping. Ninety percent of the women said they were this person, while 79% of the men claimed the same. Despite the overlap in numbers, it is clear that society has changed and, with a third more women working outside the home since 1972, men have tripled their reported share of contribution to household chores, including grocery shopping.

Make sure that apple is organic

This once coastal movement has gone national due to food scares and an overall desire to live life with fewer chemicals. As reported for Holiday 2016 by Criteo, we are in the midst of a serious nostalgia cycle with Millennials and Gen Z desiring to do things that their great grandparents did: pickling, making their own baby food and cooking Sunday dinners, for example. It is a part of how these people parent and has huge repercussions for the food industry.

Shopper paradigm shift



Primary shopper
One person does it all



In the past 40 years

- One-third more women work outside the home
- 3x more men's share in household cooking



Shared shopper paradigm
Households delegate or collaborate

Source: FMI US Grocery Shopping Trends, 2016. "US Bureau of Labor Statistics, Women in the Labor Force, May 2014. Percentage of Population in the Civilian Workforce, 1972.

Shoppers focus on fresh & less-processed

Product Claims

shoppers seek when purchasing

Low sodium	42%
No trans fats	35%
Whole grain	38%
High fiber	35%
Low cholesterol	21%
Vitamin-enriched	15%
Antioxidant-rich	13%
Calcium-fortified	11%

Source: FMI U.S. Grocery Shopper Trends, A12: "What health claims do you look for on the package when purchasing a food product? (Select all that apply)." 2016.

Arguably no stage of life involves more brand loyalty development than having a baby.

After the birth of a child, not only are people buying products they never would have before, they are buying them for multi-year durations.

The busy parent factor

Marketers have typically focused on doctors' offices and direct mail to reach expecting parents. They know that getting that first diaper on the baby out of the hospital (or the first bottle of formula) is crucial: it tends to lock them into at least two years of purchasing before they move onto the next stage of parent purchasing.

Among Millennials, two forms of grocery shopping are emerging as their normal. Pantry items that are typically bought over and over again (staples) are shifting online with services like Jet, Boxed and Amazon Prime. All retailers

offer access to past carts by date, and have one click re-ordering. It all makes sense. Do you really want to drive to a store with a small child, buy the toilet paper, get it into the SUV, drive it home and then unload it, all while disrupting a crucial nap schedule?

Millennials are the ones that are making the leap into fresh groceries and they are on the vanguard of the booming meal kit business. Of course, grocery stores have long had roasted chickens and other grab-and-go meal items, but they are now stocking more and many pre-cut and pre-measured items.

People want control over what their family eats and, with small kids, they just don't go out as much. Full-time working moms and dads want the time with their kids, not in a grocery line.

Due to the unique dynamics of online, upstart brands like Keurig, Kind and Annie's Homegrown have managed to become category killers. These brands not only know how to use paid search effectively, they have been masters in using social media to connect, engage and earn the trust of these first-time parents.

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Searching habits.

Criteo conducted a survey of 600 online shoppers to determine their attitudes about online grocery shopping with some interesting results:

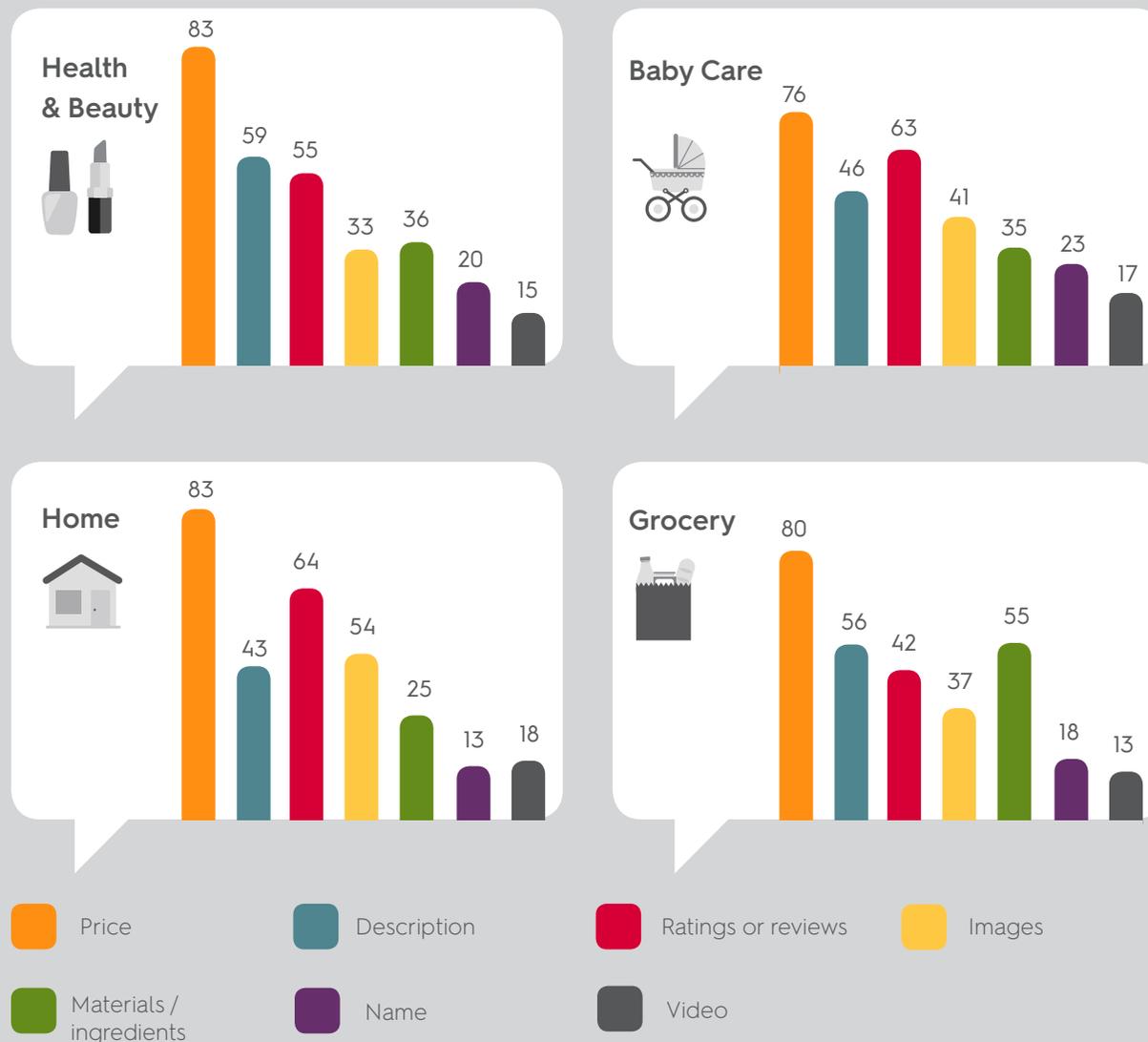
- **43% of eGrocery shoppers** and **41% of Health & Beauty shoppers** say they browse within a site
- An impressive **59% of Baby Care buyers** compare within a site.

What keeps an eGrocery shopper on the same site?

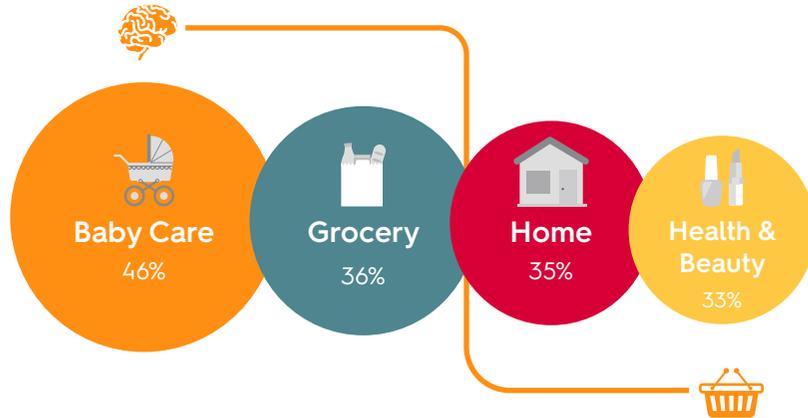
- **Selection is the most important factor**, favored by 36% of Grocery buyers, 30% of Baby Care and 24% of HBA

In terms of purchase, price is the most important factor, as it likely always has been, but other factors do hold sway. Not surprising, ingredient labels are more significant than in other categories. It does make one pause when you consider how tiny the type is on most products.

% of influences on purchases



% of purchases made on impulse



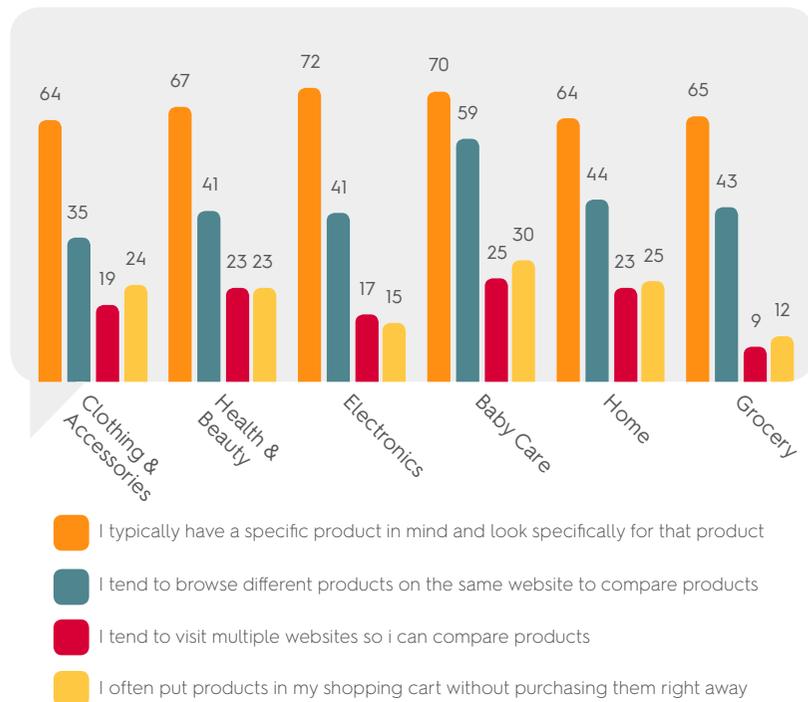
In CPG in the U.S., the major choice that a consumer makes when cruising down a grocery aisle is store goods vs. branded for a few cents more. According to renowned CPG marketer Sergio Zyman (former CMO of Coke and the creator of Diet Coke), store brands never pop above 20%, regardless of a premium generic with packaging. Consumers like and buy into brand stories, and while Millennials may say they are not brand loyal, they clearly are.

The emergent generation, the Zs, are extraordinarily brand loyal and see brands as an extension of their lifestyles. Marketing to teens, who are using less and less broadcast media, as they develop their own brand preferences, becomes crucial with paid search on retail sites, YouTube videos of product demos and the content of the ads themselves.

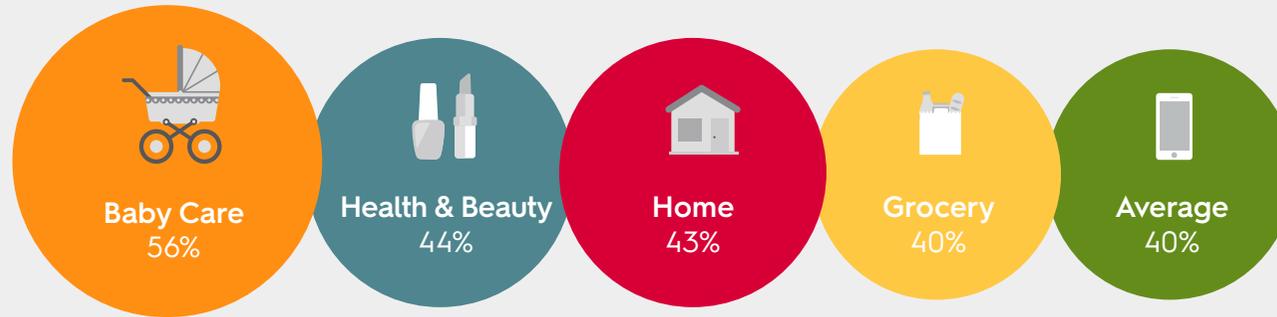
Grocery stores are basically boxes designed to incent impulse purchasing with every aspect of the store carefully analyzed and optimized for buying efficiency. When you look at the figures for what online grocery shoppers say they do, over one-third of their purchasing is done on impulse, which is a lot of gum, soda and crackers. Once again, Baby Care is even more likely to be an impulse purchase. Parents are stocking up on baby essentials and are apt to try a low, out-of-pocket item their child might like.

Brand loyalty is crucial in CPG as purchases go on indefinitely throughout the life of the customer. Brands need to make sure shoppers choose their product over the no-name brand for \$0.20 more. As compared to other product categories, shoppers tend to be loyal to various brands.

When shopping online for this product, which phrase best describes how you shop? (%)



% of online purchases made via a mobile device



Source: Criteo Online Buying & Browsing Study, 2016



Mobile matters

Within the next two years, expect the major markets to get even more competitive in the realm of Click & Collect. Millennials can't be tied to their laptops. Ordering on their phones and popping by the local store to sail by those in line as they pick up the week's groceries will be a very common scenario. Smart retailers are not just setting up designated areas in-store for pick-up, they are reserving the best parking slots for these in-and-out customers.

Shoppers with children report that over half of their total purchases are made with mobile phones (56%), while groceries land slightly lower at 40%.

Grocery searches

Americans are clearly coffee-mad and Keurig is killing it in the category, according to data from the Criteo Sponsored Products Retail Network. K Cups are more searched for than water, and Keurig itself makes the list. Coffee falls just behind K Cups in terms of searches. There may be an epidemic of nut allergies among the young, but others likely favor nuts for their protein content and as a healthy snacking option. Cashews and mixed nuts make the list along with peanut butter, that most American of staples. Coconut oil, recently favored for its health properties, is the only oil to appear. High in unsaturated fats, coconut oil has been a trendy ingredient in many recent online recipes.

Health & Beauty searches

Oral care dominates the list with Sonicare, Waterpik and electric toothbrushes from various brands proving that consumers want help in keeping their pearly whites, well, white.

Health conscious shoppers have gone on a protein binge: protein, whey protein, protein powder all make the list.

The top skincare brands to appear are Aveeno, followed by Cetaphil. Cetaphil is often used for acne, while Aveeno has clearly gotten its money's worth from actress Jennifer Aniston's product endorsements. Depends also makes the list, likely reflecting the aging of the U.S. population.

In the Criteo survey of online shoppers, those who had made HBA purchases in eGrocery were most likely to have bought cosmetics, shampoo and conditioner. The categories showing the most growth in purchasing over the three years of the study are conditioner and razor blades.

Q3 US top Grocery searches



Q3 US top Health & Beauty searches



Source: Criteo Sponsored Products Retail Network Data, 2016

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Buying habits.

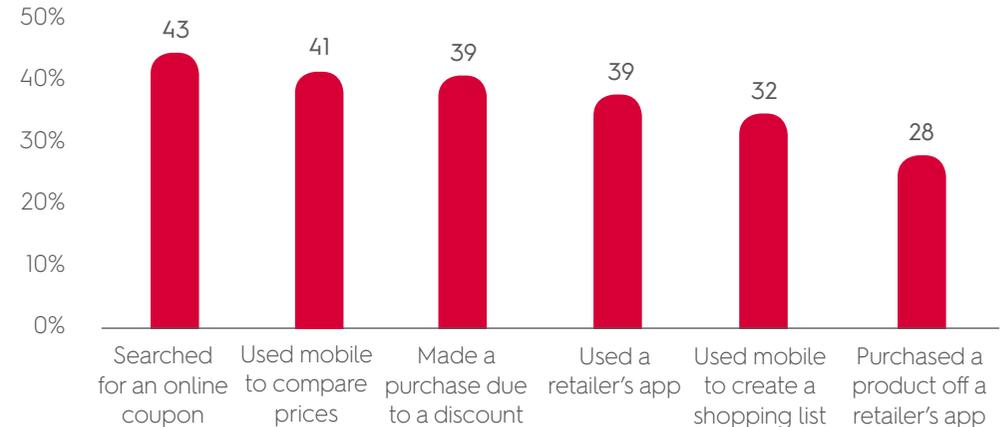
Promotional activity: Just what do those FSIs get put into?

Trade marketing is often more than 40% of brand marketing in a bricks grocery scenario. Trade spend is elastic and is related to sales volume. But, it has its long standing issues, like complexity of implementation, non-compliance and failure of the store to use the funds. For that matter, there is no consensus on what exactly goes into those trade budgets. Without a doubt, marketers need to, and are beginning to, shift some of their spend to paid search on retail sites.

The area of promotions is ripe for a renaissance as many traditional tactics just don't make as much sense anymore in a highly digital world. Newspapers have largely vanished and, along with them, true FSIs. In ex-urban areas, FSIs are mostly dropped on doorsteps. Millennials are not the sort to be clipping paper coupons, but they will hand their phones to a cashier to scan the code. Coupons sites compete fiercely for their attention.

In terms of consumer acceptance, paid search has been a part of Google since its inception and continues to hold great weight. Store apps are an essential part of building customer loyalty through push notifications for promotions. What is clear is that mobility makes it work all that much better.

% of shoppers by activity
in the past 6 months



Source: Criteo Online Buying & Browsing Study, 2016

Carts laden with SKUs

The grocery cart is probably the commerce leader in terms of number of items it contains. While grocery shoppers who buy an increasingly large portion of their groceries online and supplement with trips to the local store or, in urban areas, the farmer's market for produce and dairy, are increasing, it's important to look at cart sizes in grocery compared to other categories. They might have low cost per item, but those carts add up and overflow.

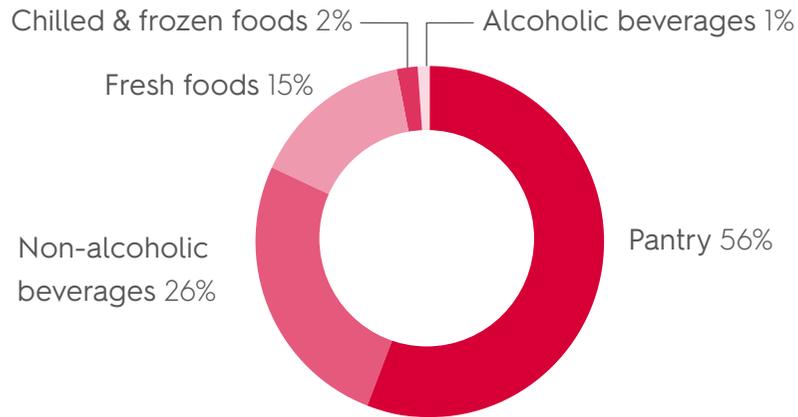
It's interesting to note that fresh foods encompass 15% of the total. The eGrocery business is still largely one of staples, but with things like meal kits and convenience, and home cooking showing no sign of waning, expect this bucket to grow.

(Graphic next page.)

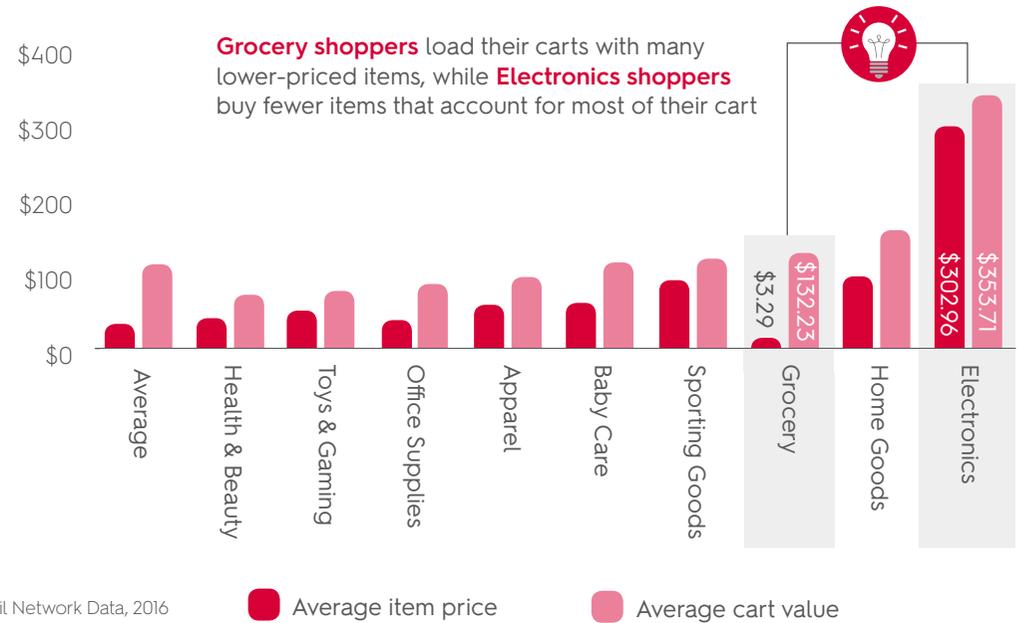
Holiday carts the last two weeks of December



US Grocery shopping by sub-category



Q3 average item prices & cart values by category



Source: Criteo Sponsored Products Retail Network Data, 2016

A man with dark hair and a beard, wearing a blue button-down shirt over a white and black striped t-shirt, is sitting on a light blue sofa. He is looking at a silver laptop in front of him, with his hands on the keyboard. The background shows a blurred living room with a framed picture on the wall and a potted plant.

4

Measurement & evaluation trends.

ROAS and share of shelf

In addition to distribution, attribution and measurement overall pose the greatest challenge of the shift of CPG sales to online. CPGs live in a world of mass consumer reach, not micro-targeted ones. Television and GRPs still work relatively well for those over 40, but what do you do when one-quarter of Millennials do not have cable and 11% never have? Most Gen Z kids grew up with iPads and online streaming, and the idea of ever watching a TV show with ads is ludicrous and makes them squirm with boredom. This does not bode well for traditional marketing tactics.

CPG marketers for some time have been in a not-so-quiet rebellion over media mix models that take months to develop and are done using data that, by the time the model is implemented, shows the audience may have moved on to the next best thing. The rapid growth of social media has upended traditional models and brands have realized the power of communicating and creating engagement

around a lifestyle. Brands have moved on to multi-touch attribution, but even with that, the pace of change is just too great and the data often just too complex to parse into anything meaningful.

A company like Criteo works with its retail partners to pool shopper data so that paid search ads bought based on response are extrapolated to actual sales. For example, \$10,000 spent to advertise Huggies equals 50,000 SKUs directly attributable to that buy.

It's a simple approach to the hoary question of attribution, but it's relatively easy, it works, and, based on the ever-increasing CPG client base of Criteo globally, it's a mode of buying partners like.

Clicks cannot encompass what most CPGs care about: share of shelf (what percentage of cookie sales does Oreos encompass?). Until recently, this metric was tough to nail down for online, but a recent Criteo analysis of 180 campaigns on the universe of their online retail network revealed insights from exposure to paid search.

CPG campaign stats

Across all campaigns there was **+48%** average change in share of category consideration and **+43%** average change in share of category sales

The lift varied by product category:

- Grocery, Electronic and Apparel & Accessories showed the highest lift in **share of consideration**.
- Baby Care, Apparel & Accessories and Health & Beauty showed the highest share of **sales lift**.

Within Grocery, the average share of sales lift was 39%.

- It was 65% in Baby & Toddler and 46% in Health & Beauty.

Share of consideration of Grocery grew 62%.

- Baby & Toddler grew by 48% and Health & Beauty by 39%.

2017: The year of eGrocery

The competition is heating up as marketers take advantage of technological innovations that are transforming grocery sales. With the growth numbers as strong as they are, all Bricks & Clicks need to optimize those clicks and implement Click & Collect, Click & Ship and Click & Pick.

Shoppers are very brand loyal and, with the reduced line of product view posed by mobile screens, it's even more important that marketers stay top of mind in the midst of a brutally competitive category where generics (especially Amazon's) are just one click away.

The market is changing rapidly in respect to the Internet of Things and voice activation, and this is the year that Amazon's Echo (and Dot, and Dash buttons) hit critical mass. Other platforms like Apple, Microsoft and Google will be competing to connect with as many online grocery services as possible.

What should brands and retailers in CPG do now?

- **Use Criteo Sponsored Products to drive awareness and sales.** Criteo's Sponsored Products, which are relevant to the purchaser and what they are shopping for, can help consumers find products in large cart size, multiple-SKU categories like CPG.
- **Cross sell for impulse purchasing.** There's a reason a stack of bananas may be in the cereal aisle and a display of Oreos near the dairy section. Criteo's Cross Sell Tools can help recreate that online.
- **Use paid search to help increase organic rankings.** In the "winner take all" world of online grocery, where carts are persistent, brands are powerful and search favors products that broke through earlier in the evolution of ecommerce – and once there, gain broader distribution – the increased sales that result reinforce organic rankings.
- **Experience the incremental lift of Criteo Sponsored Products.** During the time period of this report, Criteo's analytics team conducted 180 share shift campaign analyses comparing pre- and post-campaign product sales by category and found that Criteo Sponsored Products on average increased share of consideration by 48% and share of sales by 43%.
- **Ecommerce media requires an "always-on strategy."** Ecommerce has fundamentally changed retail seasonality. Make sure your brand budget is able to cover not just traditional retail seasons like Holiday and Spring, but the entire year. Criteo data shows that, especially with gift cards, Holiday extends well into January.
- **Pay attention to Amazon and Google.** Retailers should take a lesson from the Amazon playbook and amortize their audiences through sponsored product ads. Native advertising will likely be the preferred ad format on AI devices and these ads will transition to voice activation. The more experience brands have with this

sort of performance marketing, the more likely they are to command the lead when voice-triggered ads for products on specific retailers appear.

Stop seeing Amazon and Google as a threat to major retailing and recognize that these companies have the funds to do the R&D necessary, and that a rising tide indeed floats all boats. They act as an incubator of ideas and innovations that can benefit all. Retailers and brands own powerful relationships with consumers that, if cultivated, will transition to the voice-activated future. Make sure you are the brand or retailer on the tip of their tongue as more and more consumers begin to use these devices for product ordering. That takes strong and creative marketing that only you control.

About Criteo

Criteo (NASDAQ: CRTO) delivers personalized performance marketing at an extensive scale. Measuring return on post-click sales, Criteo makes ROI transparent and easy to measure. Criteo has over 2,200 employees in 30 offices across the Americas, EMEA and Asia-Pacific, serving 13,000 advertisers worldwide and with direct relationships with 17,500 publishers. For more information, please visit criteo.com.

Criteo ads reach over 1.2 billion unique Internet users (comScore, January 2016).

.Ideas

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