

A man and a woman are smiling and cooking together in a kitchen. The man is stirring a pan on the stove, and the woman is holding a bowl. The background shows a brick wall and string lights.

criteo.

UK FMCG Trend Report.

Taking Stock of the Future of Grocery

United Kingdom: Q2 2017

Executive summary

There are no more valuable retail baskets than those devoted to grocery. Unlike every other category, most grocery items have no true seasonality of purchase.

Chances are, shoppers will place that pint of milk in their baskets each week, no matter what time of year it is. Grocery stores have shopping down to a science, and they carefully position goods so that shoppers make as many unplanned purchases as possible. Shoppers for Fast Moving Consumer Goods (FMCG) pass by hundreds of products on their way to the necessities at the back of the store.

Now, online ordering of FMCG has upended much of what brands and retailers knew about the purchase process and how to motivate consumers. Online shoppers flip between sites comparing prices and availability in a radically limited field of product view. They shop online and pick up in store or shop in store, order on their phones and have the goods delivered.

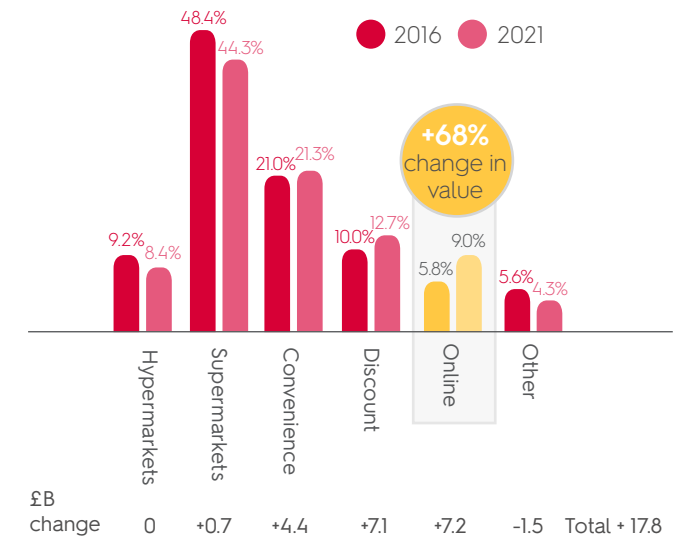
Online grocery is exploding in the UK, due partly to the ecommerce expectations of Millennials, who are now becoming parents with a need for greater convenience. According to IDG, grocery online in the UK will grow 68% by 2021.

Supermarkets like Tesco, ASDA and Sainsburys are leading the way with home delivery, local pick as well as strategically placed lockers. Amazon's entry into the UK in mid 2016 with Amazon Fresh, and their same day delivery options, are adding additional competitive fire to FMCG sales.

With digital channels providing the retail growth in grocery, FMCG brands and retailers have an imperative to get it right. With the narrow margins in the category, retailers are using their data to customize and direct the experience for shoppers, while brands are using paid search on retail sites to draw attention to their products on the crowded online shelf.

Criteo's Sponsored Products Network works with some of the top FMCG retailers in the UK

Online Provides the Growth in UK Grocery Retailing



and has unique insights on how consumers shop and what motivates them to buy. The data in this report comes from millions of products searches and transactions that can help marketers develop the up-to-date best practices that ecommerce demands.



The UK is relatively advanced in online grocery compared to the rest of Europe: **6.9% of UK FMCG sales** are done online.¹



Of those who buy groceries online, **40% of those purchases** are made on mobile phones.²



Click & Collect is one of the major drivers of online grocery in the UK with “bricks & clicks” supermarkets having the advantage over Amazon.



In ecommerce, typically British foods like tea and sausages are being overtaken by the global craze for **coffee and pizza**.³



Fresh foods are shopped for as often as cupboard items – attesting to the relative maturity of the grocery market, (which typically begins with non perishables).⁴

A background image showing a group of people sitting around a wooden table. One person is holding a tablet, and there are various food items and a glass on the table. The image has a purple overlay.

1

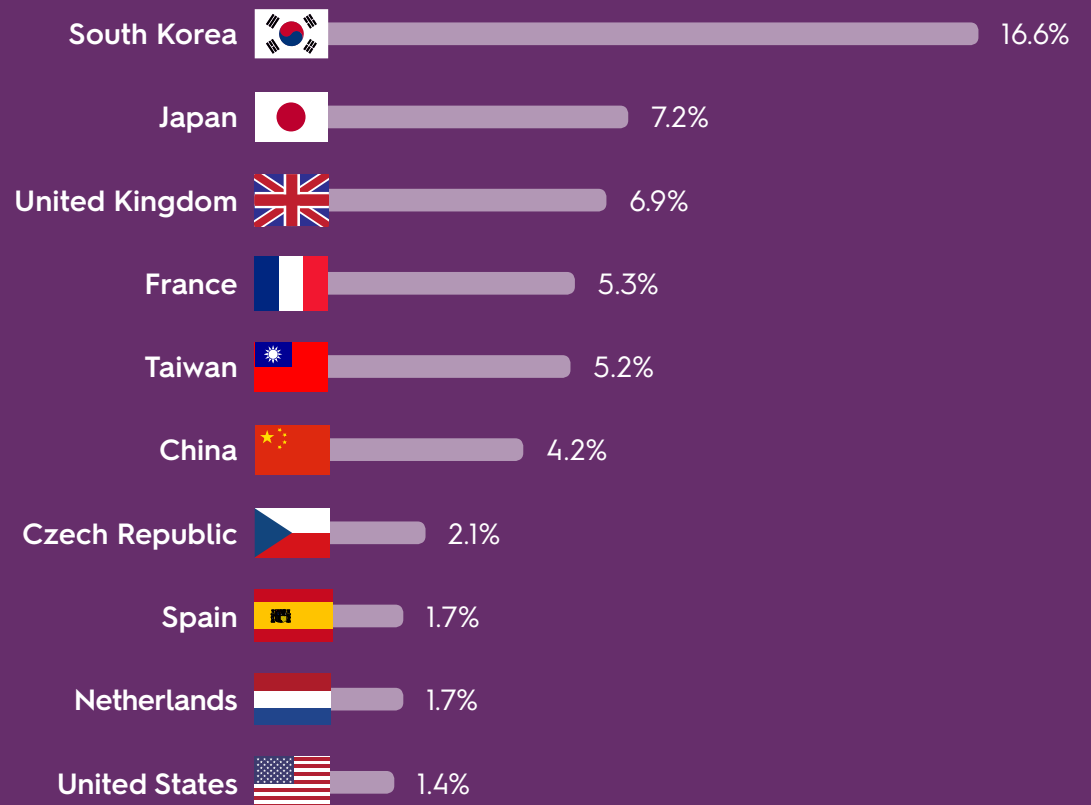
Category trends.

Growth of eGrocery in the UK and abroad: Taking stock of the potential

Grocery shopping online has become a global phenomenon, but it varies radically in market penetration, according to Kantar Worldwide. The UK leads Europe at nearly 7% of total grocery expenditures, with France just behind at around 5%.

The UK is considered a mature market in terms of eGrocery development, but there are still huge areas of opportunity. While about one-quarter of all grocery shoppers in the UK have bought online, **75% have not.**

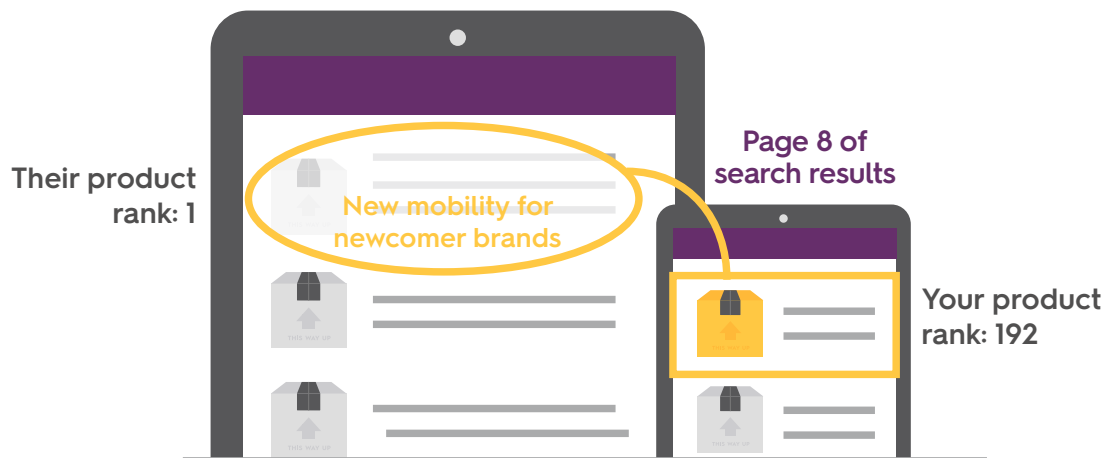
Top markets in estimated ecommerce share of the FCMG market



FMCG ecommerce challenges met with huge opportunity

What are the major issues with online grocery faced by marketers and retailers?

Page 1 of search results



1 First mover advantage and top rank persistence.

The online marketplace has enabled upstart brands like Organix and Hipp to gain footholds in grocery that they never would have been able to accomplish offline, due to the high cost of trade spend in market entry. As also seen in the US and China, once a product ranks highly in search due to early sales, it is difficult to move it from that position. As ecommerce grows, all brands need to support their products online to ensure greatest visibility.

2



No end-of-aisle and checkout displays. Brands understand the power of highly visible placement in key areas of grocery stores to incentivise product trial. Paid placements on product category pages on retail sites are a rough equivalent.

3



A maximum of around 6 items can fit on a mobile above the fold

The super limited “shelf space” of mobile.

Mobile commerce is growing rapidly (in Festive Season 2016, more shopping was done in the UK on mobile devices than desktops), but for marketing, it provides a very limited range of product view. Brands need to stand out in a field of four products, not the hundreds that a consumer typically takes in when walking down a supermarket aisle. By leveraging sponsored products, brands can get their products in eye view to increase visibility



4 Persistent baskets. Consumers typically shop from archived lists in grocery, especially if they have a year's worth of baskets available. It's great for the brands that make the cut. Not great if you are the brand on the outside trying to unseat the one already in. Combat the persistent cart by leveraging sponsored products to suggest new items to the cart.



5 Fulfillment expense and tight delivery timeframes. Early online grocery initiatives tended to falter as grocery fulfillment and distribution is a very complex process with spoilage a huge factor. Click and collect was first introduced in the UK in 2011 and has become firmly entrenched in online FMCG shopping. It's the most profitable and efficient way to distribute groceries bought online. Tesco has now upped the ante with same day click and collect in some parts of London. Sainsbury is also piloting select London boroughs with this service.



6 Consumer-directed shopping process rather than guided track of supermarket. Supermarkets are an absolute science in terms of where products are positioned and how they are promoted. Online, a consumer goes to the site and decides how to shop. Smart retailers are re-thinking product categorisation to get people in and out as quickly as possible, which is typically the goal online.



Image source: https://static.standard.co.uk/s3fs-public/styles/article_small/public/thumbnails/image/2016/11/02/20/hellofresh-.png

- 7 It's raining meal kits.** Capitalising on the need for convenience, but also the desire for fresh and homemade, meal kit vendors have proliferated. Packaged food brands should make connections with top ecommerce retailers and kit sellers like Gousto and Hello Fresh to incentivise free trials and increase brand loyalty among home chefs.



Image source: ASDA

- 8 Auto re-ordering.** Clicking the “subscribe and save” box is a powerful action on the part of consumers with huge impact for brands and retailers. Retailers need to encourage busy shoppers to “set it and forget it” The ultimate threat is the Amazon Dash buttons to auto-reorder any of 40 different products (launched in the UK in September 2016).



- 9 How to measure it.** Brands are used to GRPs and Reach & Frequency tied to media mix models along with offline “share of shelf” measurements. How should they measure effectiveness in a click-based world? This type of analysis is in its formative stages for FMCG online, but expect the use of it to grow. Criteo’s insights team can provide these metrics for Sponsored Products campaigns.

- 10 Your brand vs. Amazon brand.** Amazon pricing and house brands pose huge challenges to brands selling online. Amazon Fresh launched in the UK in London in June of 2016.¹ To date, Amazon has generics (partnered with Morrison’s in the UK) for baby products, coffee, snacks, and detergent Brands need to reinforce their value through campaigns and performance marketing initiatives.

¹ Source: theguardian.com/technology/2016/jun/09/amazon-starts-uk-fresh-food-delivery



The Millennial factor:

The online generation multiplies and gets serious about groceries

Millennials are a bigger group than even the Boomers (26% of the current UK population, according to UN estimates). As the first generation that grew up entirely online, they have high expectations of their ecommerce vendors. When single, they are the ones that helped Yelp and Just Eat take over, and they are now the primary purchasers of meal delivery services. According to a 2015 Mintel survey, 57% of them said that they had purchased grocery items online, while just 40% of Boomers had ever done so.

They bring a different set of values to their shopping than other generations. Research by consulting firm Canadean – Global Data shows nearly 60% of 25-34 year-olds “want to buy food and drink products that reflect their attitudes and opinions on life.” When they have children of their own, convenience becomes even more important to feed burgeoning families. On average, a household with a child under the age of 18 in the household spends £96 more per week on groceries online than a household without according to Criteo’s 2016 Browsing & Buying Online study of UK shoppers.

2

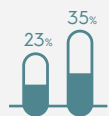
Browsing & buying trends.

In-store to online transition

Criteo conducted the third annual Browsing & Buying Survey 2016 of 600 UK online shoppers to determine attitudes and usage of online grocery sites.



60% of online shoppers reported that they had bought a Grocery product online within the three months prior to the survey. That's a 10-point rise over the past two years.



Vitamins and supplements rose from 23% to 34% purchase incidence while over the counter medications rose 10 points to 30% of online shoppers saying they had purchased online.



Beer and wine rose 8 points in two years; **37% of online shoppers** reported buying in this category.



Healthcare products also increased 10 points to **47% of online shoppers** saying they had purchased online.

What keeps an online grocery shopper within the same site rather than shopping around?

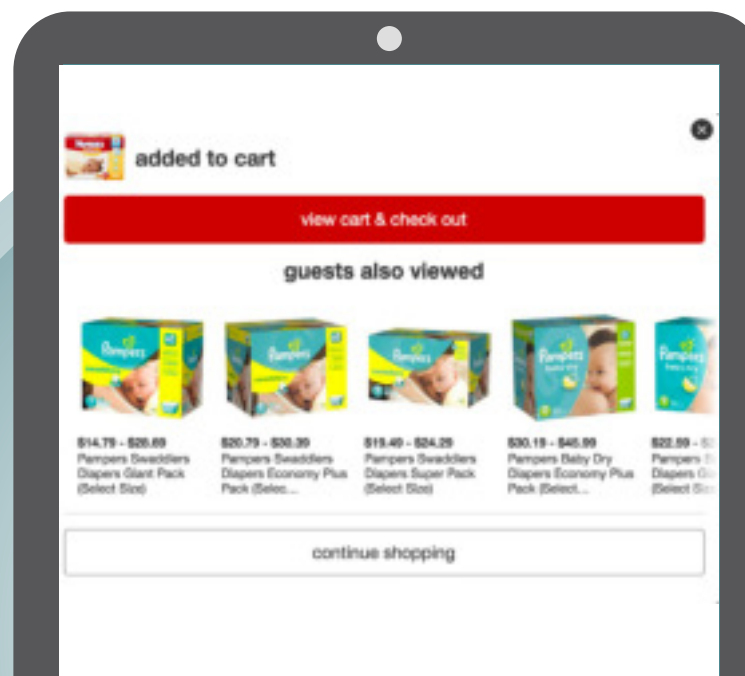
- **Selection is the most important factor**, favoured by 39% of grocery buyers, 30% of Baby Care and 24% of Health & Beauty

In terms of purchase, price is the most important factor online, as it typically always has been, but other factors do hold sway. Not surprisingly, ingredient labels are more significant in Baby Care with 25% of online shoppers saying lack of proper product information drove them to another site.

Impulse purchasing is paramount in grocery

with real-world supermarkets designed to incent product trial. Thirty-six percent of grocery purchases are impulse buys, according to shoppers in the survey. The incidence of impulse purchasing is even higher **in Baby Care: a full 46% of items are not planned purchases.**

As busy parents make entirely new brand choices, it's incredibly important that FMCGs use techniques to ensure their products stand out and make it into that first grocery basket



Widgets on Add to Cart Confirmation pages can steer shoppers to additional products they may like.

What shoppers search for in Online Grocery

If you look at the most-searched products on UK grocery sites that are a part of the Criteo Sponsored Products Network, it's a healthy mix of staples and fresh foods. Shoppers never want to run out of milk, bread, cheese and eggs.

It's interesting that traditional British products like tea and sausages do not make the top 25 list, but pizza and coffee do. "Gluten-free" is a term that has now appeared on the top 500 network search terms list.

What shoppers search for in Health & Beauty

Shoppers have turned to online to fulfill their need for all manner of personal care products. Judging from top search terms in the category, straight hair is still in, footcare matters no matter what the season, as do hair removers. Among the brands most searched-for brands are: Dr. Scholl's, Magic Minerals, Weight Watchers and Slim Fast. Higher priced brands also make the list, such as Dior, Makeup Forever, No!No! and MAC.

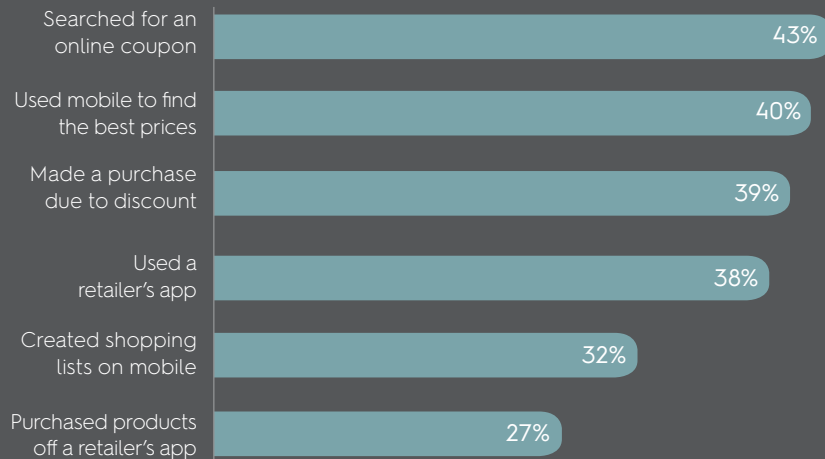
Search terms by volume: Grocery



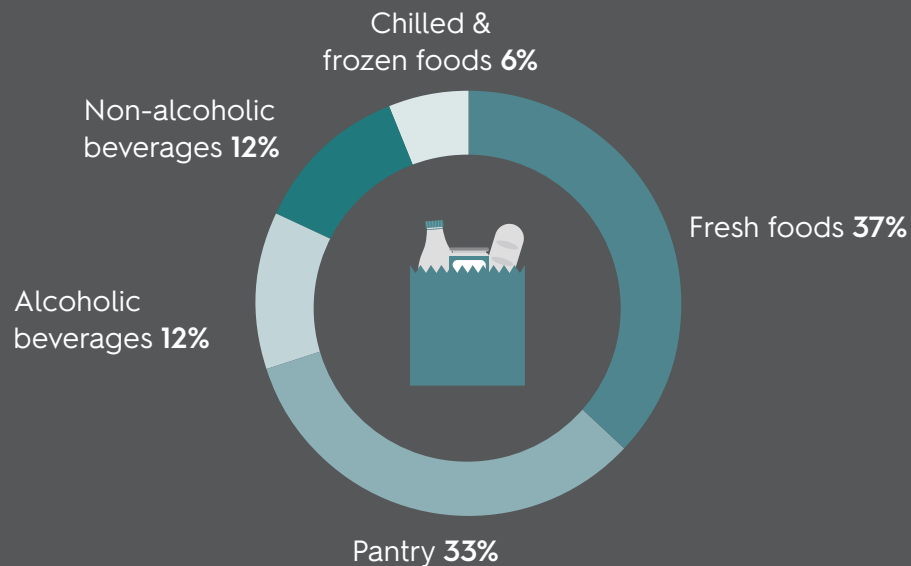
Search terms by volume: Health & Beauty



% who did activity in the past 6 months¹



UK Grocery by product type²



Sources: ¹UK Online Buying & Browsing Study, Criteo, 2016

²UK Criteo Sponsored Products Network, Q3, 2016

Product trial: How do you increase it online?

Trade marketing (or marketing to specific retailers for in store promotions and displays) often encompasses more than 40% of all marketing budgets within the FMCG category. Online presents such dramatically different sales dimensions that brands cannot directly replicate techniques they rely on in-store.

And, with longstanding issues (complexity of implementation, non-compliance with brand standards and failure of the store to use the funds) it's ripe for an overhaul.

How do shoppers engage in promotions online? The most common activity is searching for an online coupon, done by 43%. 32% used their phones to create a shopping list and nearly 39% use a retailer's app. When you consider the fact that promotions can be instantly acted upon through the mobile phone, this kind of activity is doubly powerful.

A look inside those baskets: A fresh start with so many SKUs

The online grocery business in a market typically starts out with staples, but as consumers get comfortable with buying online, fresh and refrigerated food sales increase accordingly. In the UK, fresh foods actually account for more of the groceries sold than pantry. In the US, where online grocery accounts for less than 2% of all groceries sold, fresh foods encompass only 15% of all groceries sold on the Criteo Sponsored Products network.

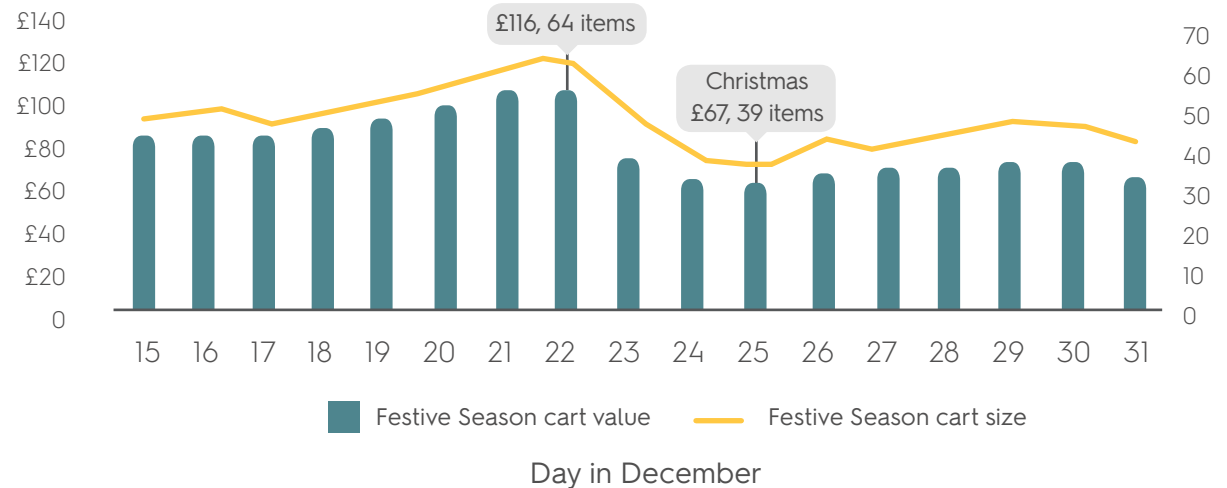
Festive Season

The grocery basket is the ecommerce leader in terms of number of items it contains. And, though they might have relatively low cost per item, those baskets add up quickly.

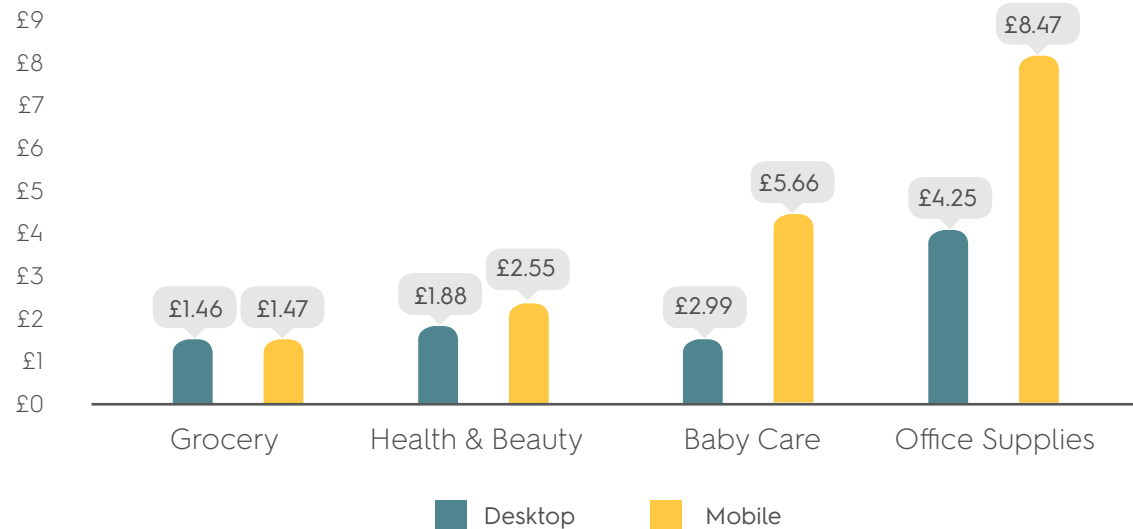
For the last two weeks of December, which are some of the heaviest grocery weeks of the year due to in-home entertaining, carts just before Christmas averaged £116 with 64 items per cart. Christmas Day itself represented the low point, but still, there were 39 items on average per cart for a total value of £67.

In Grocery categories you see the impact of the growing comfort consumers feel with mobile commerce. Whereas even a year ago, mobile conversion rates and mobile cart sizes were lower than those of desktop. Now you can see that they have achieved parity and especially in younger demo skewing categories (like Baby Care), they can exceed those on desktops.

Festive Season cart value & size



UK average unit price, desktop vs. mobile



Ways to measure: ROAS, share of shelf

Attribution and measurement pose significant challenges in the shift of FMCG sales to online. FMCGs live in a world of mass consumer reach, not a micro-targeted one. Television and GRPs still work relatively well for those over 40, but what do you do when two thirds of those in the crucial 25 - 34 demographic say they rarely watch television anymore?

FMCG 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 is obsolete as media behaviour changes so rapidly.

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 Persil could be connected to 50,000 SKUs directly attributable to that buy.

It's a simple approach to the long-standing question of attribution, but it's relatively easy, it works, and, based on the

ever-increasing FMCG client base of Criteo globally, it's a mode of buying partners like.

But clicks cannot encompass what most FMCGs care about: share of shelf. Until recently, this metric was tough to nail down online, but a recent Criteo analysis of 180 campaigns run over their online retail network showed that (due to exposure to paid search):

- Across all campaigns, there was **+48% average change** in share of category consideration
- Across all campaigns, there was **+43% average change** in share of category sales
- The lift varied by product category:
 - ▶ **Grocery share of consideration lift was 62%** and **Health & Beauty was 49%**
 - ▶ **Grocery share of sales lift was 39%** while it was **46% for Health & Beauty**

Share Shift analysis is a program benefit available to Sponsored Product advertisers.



3

Best practices.



2017: The year of “eGrocery” in the UK

The competition is heating up as FMCG marketers look to online for growth and more bricks retailers use their real world footprints to deliver on clicks. Amazon’s entry into the grocery market poses a threat, but the sheer size of Amazon convinces more shoppers to try online from their favorite established merchants. It also pushes the whole market to innovate to maintain their share.

With the reduced line of product view posed by mobile screens, it’s extremely important for marketers to ensure their products stay top of mind. The “steaks” are even higher when you consider that subscription

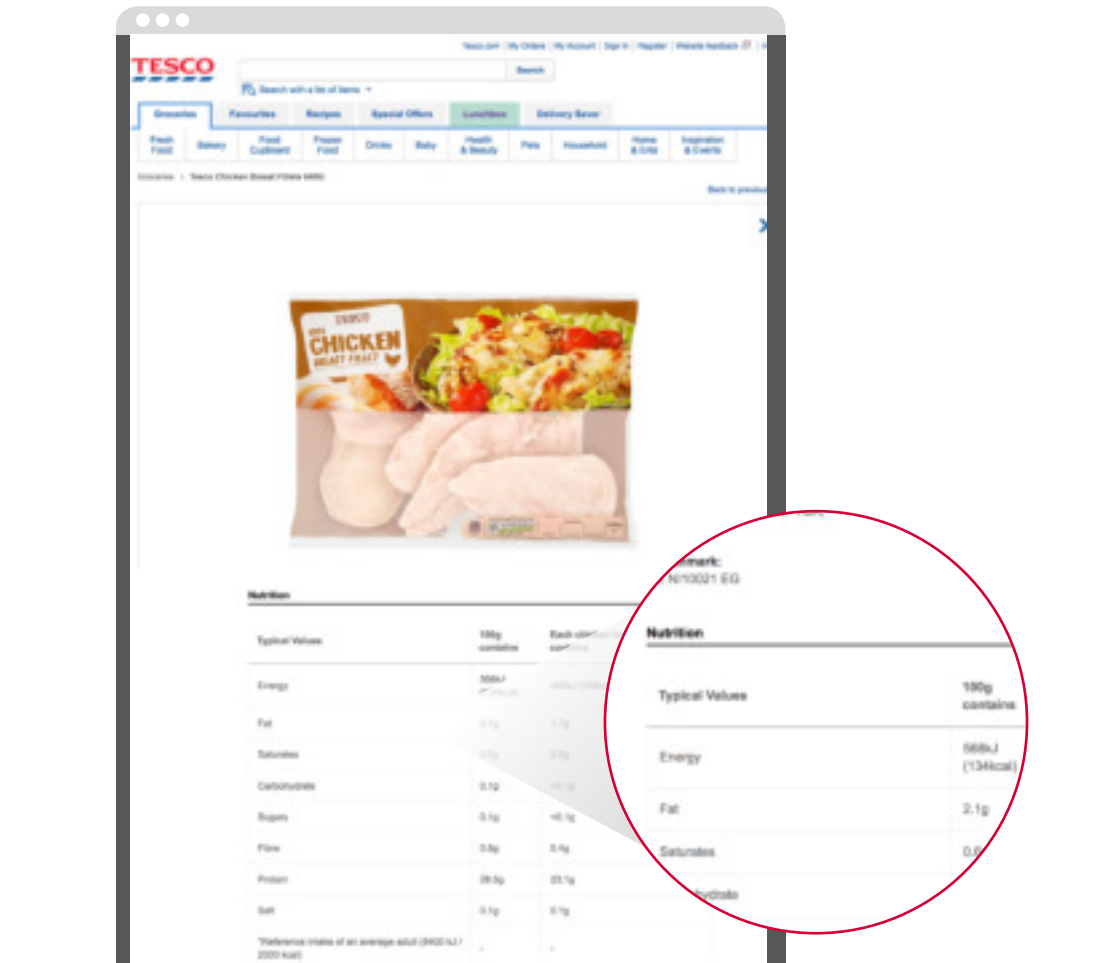
purchasing may lock a shopper into one brand for the near future. Criteo Sponsored Products, which are relevant to the shopper as well as what they are searching for, drive awareness and increased sales.

The next frontier in eGrocery in the UK is dawning with the screenless internet as consumer electronics companies fight it out over which will control the household through IoT based devices that will either respond to voice ordering (Amazon Echo and Google Home) or automatically order products (the Amazon Dash buttons and LG and Samsung smart refrigerators, among others).



TOP TIPS

Key takeaways for FMCG brands & retailers



1

Optimise how your products appear online. Products on computer and phone screens have to work so much harder than in store where their 3D shapes and colours differentiate them. Online, shoppers say that they'd like to see larger images, close-ups ones and when necessary, a 360 degree view. Copy is also important, especially in categories like baby where nutrition and ingredient information is paramount.



- 2** Use sponsored products to **drive awareness and sales**: Native product ads, such as Criteo Sponsored Products, that are relevant to the purchaser and woven into the retail site can help consumers find products in large-basket-size, multiple-SKU categories like FMCG.



- 3** **Cross sell for impulse purchasing.** There's a reason a bunch of bananas may be in the cereal aisle and a display of Walker's near the tea section. Criteo's Cross Sell tools can help recreate that online.

- 4** **Use paid retail search to help increase organic rankings.** The "winner takes all" world of eGrocery – where carts are persistent and featured brands are generally a result of algorithms that favour history and frequency, paid search can level the early advantage and help new brands enter the eye view.

- 5** **Recognise that ecommerce media requires an "always-on" strategy.** E-commerce has fundamentally changed retailing seasonality. Make sure your brand budget is able to cover not just promotional peaks like Christmas and Spring, but the entire year.

- 6** **Retailers can develop new revenue streams by monetising audience through Sponsored Product Ads.** Ecommerce media is helping retailers in narrow-margin categories like FMCG meet the challenge.



- 7** **Use retargeting to ensure your shoppers complete the buy.** Persistent carts are a given in the FMCG category as shoppers often develop their carts over a week's time before checking out. Retargeting can help make the sale.

- 8** **Treat Amazon as your frenemy.** UK "bricks and clicks" have the upper hand as they have the means to distribute groceries efficiently through both stores and the locker networks they are building up. At the same time, UK brands have spent years developing powerful relationships with shoppers. Both will maintain the upper hand if they offer the best customer service, quality products, and ensure they keep up with changing market needs.

About Criteo

riteo (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 2,500 employees in more than 30 offices across the Americas, EMEA and Asia-Pacific, serving over 15,000 advertisers worldwide and with direct relationships with thousands of publishers.

This and future whitepapers may be found at:

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