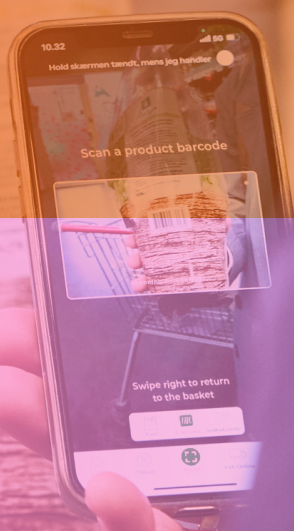


Six trends

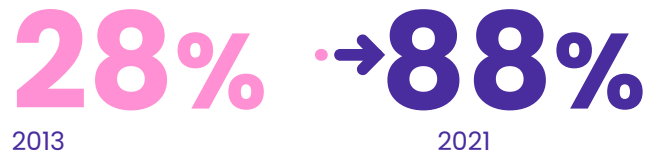


Presenting digital opportunities for grocery retailers

Introduction

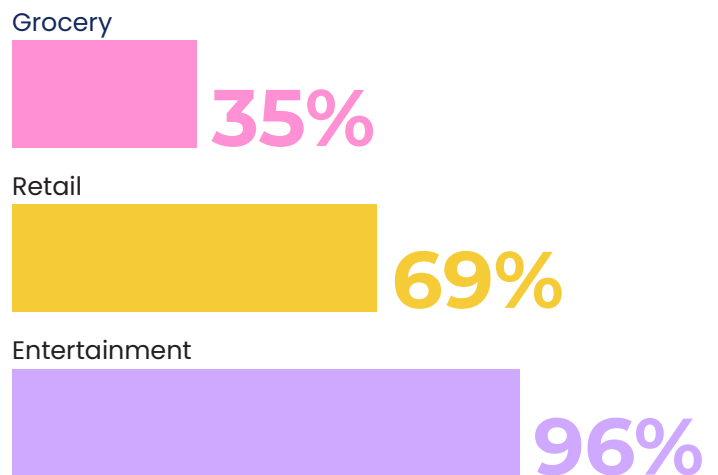
Introduction

Consumers increasingly shop fashion, make bank transfers, and book travels and accommodation from their phone. For instance, 88% of traffic to German on-line fashion retailer Zalando was from mobile in 2021 compared to 28% in 2013¹. Some businesses create digital ecosystems, centered around mobile, to ensure they always are at the fingertips of their target groups.



88% of traffic to German online fashion retailer Zalando was from mobile in 2021 compared to 28% in 2013

However, while consumers visit grocery retailers 3-4 times per week and see benefits of engaging in grocery loyalty programs², they rarely engage with grocery retailers digitally. In fact, only 35% of consumers made a digital visit to a grocery retailer in the past 6 months compared to 69% for general retail and 96% for entertainment³.



Only 35% of consumers made a digital visit to a grocery retailer in the past 6 months compared to 69% for general retail and 96% for entertainment.

¹ Statista, 2021

² Accenture, 2021 and Salesforce, 2022

³ McKinsey, 2021

[...] a high-quality mobile loyalty platform becomes a ticket to play for grocery retailers.

Now, grocery retailers have an opportunity to build digital ecosystems that reach consumers at home, on the move, and in-store. While consumers rarely engage with grocery retailers digitally, consumers want to engage with grocery retailers on their phone. For this reason, a high-quality mobile loyalty platform becomes a ticket to play for grocery retailers, and analog retailers with a limited digital presence will fall behind digital retailers that succeed in building high-quality digital ecosystems and direct relationships with their customers.

Through our close dialogue with grocery retailers around the world, we have identified six trends presenting digital opportunities. We believe that the grocery retailers capitalizing on these trends will grow their digital ecosystems and gain competitive advantages in the coming years.

Six trends

1. Targeted promotions:
Using digital ecosystem to shift from mass promotions to targeted promotions

2. Digital convenience:
Using digital ecosystem to create convenient experiences

3. Gamification:
Gamifying digital ecosystem and shopping experiences

4. Responsibility:
Using data and digital ecosystem to encourage responsible consumption

5. Power of insights:
Personalizing experiences and empowering consumers with data insights

6. Retail media:
Monetizing digital ecosystem

1.



Consumers spend **20%** more in weeks they activate a personalized offer compared to weeks they use the app without activating a personalized offer.

Targeted promotions

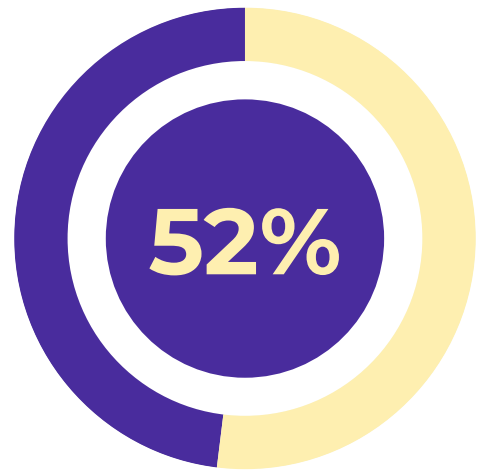
Targeted promotions: Using digital ecosystem to shift from mass promotions to targeted promotions

Rising inflation effectively lowers wages. As a result, consumers become increasingly price sensitive. For instance, 52% of low- and middle-income Americans plan to look for more promotions in response to high inflation⁴. Analog grocery retailers with an insufficient digital ecosystem are limited to traditional mass promotions to attract consumers' attention and drive traffic to their store. That is, they are forced to lowering prices across consumer segments, which reduces the return on promotional spend. Mass promotions lower margins, and promotions are often quickly matched or eclipsed by competitors, creating a negative spiral of promotions.

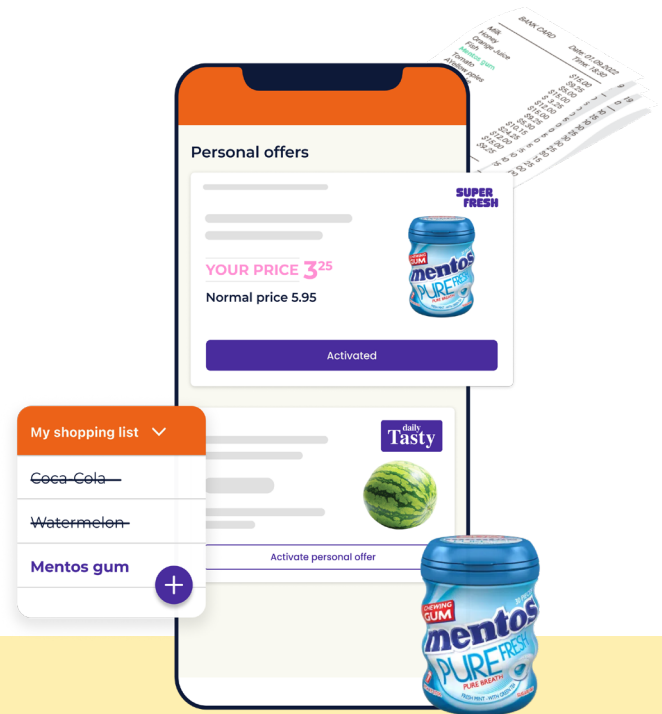
At Lobyco, we believe grocery retailers should shift from mass promotions to targeted promotions. Unlike analog grocery retailers, digital retailers can personalize offers and reward consumers with attractive and relevant offers without lowering prices across segments. 80% of consumers want personalization⁵, and personalized offers are attractive to consumers who receive tempting offers on their favorite products. Further, personalized offers are attractive to grocery retailers, as they engage consumers and drive traffic to the store without lowering margins across segments – see case in point.

⁴ IGD, 2022

⁵ McKinsey, 2020



52% of low and middle income Americans plan to look for more promotions in response to high inflation.



Case in point:

A major grocery retailer uses personalized offers – that include an element of gamification – in its mobile loyalty platform: every Sunday, consumers receive 50 personalized offers, of which they can activate 10.

► Personalized offers drive business value: Consumers spend 20% more in weeks they activate a personalized offer compared to weeks they use the app without activating a personalized offer.

- Consumers use personalized offers when planning shopping trips: 28% of weekly active app users activate at least one personalized offer, and 51% of personalized offers are activated on Sundays.
- Consumers convert offers, and offers drive traffic to the store: 36% of activated personalized offers are bought in the store.

2.



Digital convenience

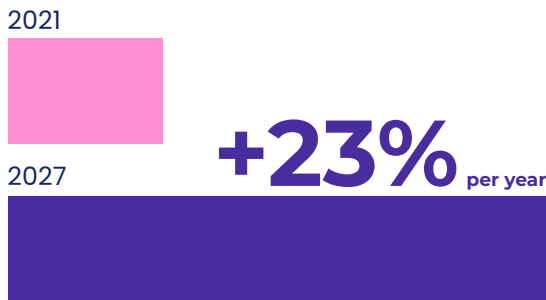
App users spend **12%**
more in-store after they
begin to use Scan & Pay.

Digital convenience: Using digital eco-system to create convenient experiences

90% of grocery shoppers use their phone in-store⁶, and 68% of Gen Z say brand loyalty depends on a brand's mobile platform⁷.

At Lobyco, we believe grocery retailers should make consumer experiences more convenient by adopting a single-app strategy, collecting the most important features in a single app. Major retailers, such as Target and Walmart, consolidate apps and shift towards a single-app strategy⁸. A single-app strategy produces several benefits. First, it reduces costs of advertisement and maintenance. Second, it can increase frequency of use. While the average American has more than 80 apps on their phone, they only use 9 in a day⁹. Grocery retailers following a single-app strategy are more likely to conquer a coveted position on the home screen – among apps used daily.

Further, a single-app strategy lays the foundation for convenient shopping experiences. 92% want to shop as quickly and easily as possible¹⁰, and 82% say checkout convenience is important¹¹. Here, we outline how a mobile loyalty platform with self-scanning and real-time bonus enables frictionless checkout.



Mobile self-scanning is expected to grow by 23% annually from 46,000 stores in 2021 to 161,000 stores in 2027.

Case in point:

A major grocery retailer uses Scan & Pay in its mobile loyalty platform. Scan & Pay allows consumers to scan items and checkout with their own phone, and the retailer reaches attractive consumer segments, drives loyalty, and creates business value:

- ▶ App users spend 12% more in-store after they begin to use Scan & Pay.

Consumers hate waiting in line, and checkout convenience becomes increasingly important. In fact, the global number of stores offering mobile self-scanning is expected to grow by 23% annually from 2021 to 2027, and most prefer to use their own phone to scan items and checkout¹². Mobile selfcheckout attracts a younger segment, increases consumer spending, and can reduce labor hours and improve store productivity by 6-12%¹³ – see case in point.

Many grocery retailers use a traditional and often complicated points system to incentivize loyalty. In the worst case, consumers do not receive points in real-time, which decreases the perceived value. A real-time cash bonus, on the other hand, offers high perceived value and is easy to understand: a dollar is worth a dollar. Kept in the wallet of the mobile loyalty platform, consumers can burn their cash bonus without friction.

⁶ Supermarket News, 2020

⁷ Merkle, 2022

⁸ Digiday, 2019 and TechCrunch, 2020

⁹ BuildFire, 2022

¹⁰ Accenture, 2021

¹¹ Merkle, 2022

¹² Retail Technology Review, 2022

¹³ McKinsey, 2022



- ▶ Consumers using Scan & Pay are 9 years younger than other app users and 14 years younger than those not using the app.
- ▶ 80% of Scan & Pay users use Scan & Pay the following month.



3.

Members spend **9%**
more in weeks they win a
game compared to weeks
they use the app but do
not play.

Gamification

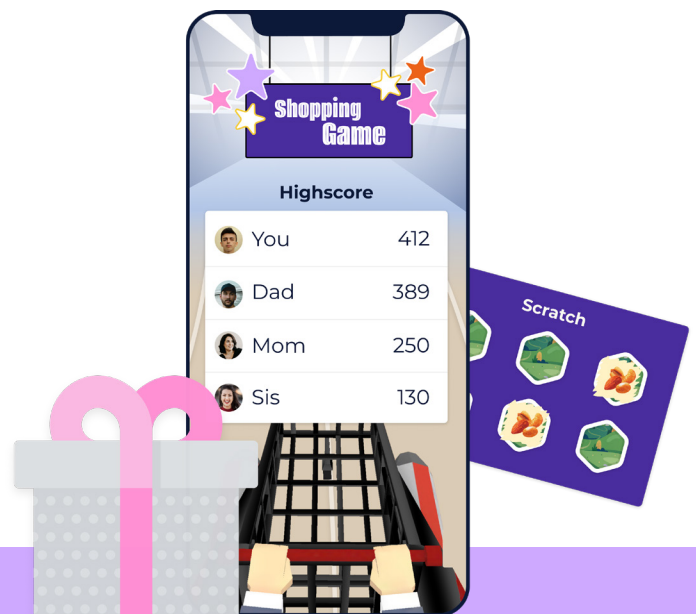
Gamification: Gamifying digital ecosystem and shopping experiences

Games can be fun and engaging. People buy lottery tickets, play board games with their friends, and compete in sports competitions. Analog grocery retailers have limited gamification opportunities. They may hand out scratch cards or let consumers participate in a monthly raffle, hoping to engage consumers and drive traffic to their store. Digital retailers, on the other hand, have almost endless gamification opportunities.

At Lobyco, we believe grocery retailers should implement fun and inspiring games that engage consumers in the digital ecosystem and create business value in the store. The best games engage consumers with attractive prizes, interesting tasks, and an opportunity to compete with others. For instance, in a Chinese mobile marketplace, users regularly check-in to water a virtual fruit tree, engaging users in the app. Users receive additional water by completing tasks (such as inviting friends to play or stealing water from friends). After numerous waterings, their tree blossoms and later bears fruit. After harvesting its fruits in-app, the provider delivers real fruit to the user's home, making gamification part of their omni-channel strategy.

Gamification can also create business value for grocery retailers. Games in a mobile loyalty platform drive traffic to the app and winners to the store. In fact, data shows that games create value for both retailers and suppliers – see case in point.

Winners spend **115%** more on campaign products after a games campaign.



Case in point:

A major grocery retailer uses games in its mobile loyalty platform, engaging consumers and creating business value.

- ▶ Games create value for grocery retailers: members spend 9% more in weeks they win a game compared to weeks they use the app but do not play.
- ▶ Games create value for suppliers: Winners spend 115% more on campaign products after a games campaign.

- ▶ Consumers play games: 37% of weekly active app users also play a game.
- ▶ Consumers convert prizes: 48% of won prizes are collected in the store.



4.

52% would pay more for groceries to help the environment.

Responsibility

Responsibility: Using data and digital ecosystem to encourage responsible consumption

Consumers want to act responsibly – consuming sustainable food, supporting animal welfare, and more – and they expect businesses do the same. 55% of consumers would be more loyal to a green brand, and 52% would pay more for groceries to help the environment¹⁴. 77% have tried to make their consumption habits more sustainable in the past year, but consumers sometimes need a reinforcing nudge to change their habits¹⁴. Analog retailers are limited to using traditional tools, such as food labels and signs, to guide consumer behavior. Digital retailers can use more effective tools.

77% have tried to make their consumption habits more sustainable in the past year.

At Lobyco, we believe grocery retailers should create engaging digital experiences that promote responsible behavior in and outside the store. Here, we outline three ways digital retailers can do that.

First, retailers can use mobile technologies to increase transparency. For instance, a major grocery retailer has implemented a sustainability scanner in its mobile loyalty platform, allowing consumers to scan around 10,000 products and view detailed sustainability scores.

Case in point:

Many do not exercise, because they perceive it is too expensive: what if exercisers, instead of paying, earned benefits while exercising? Lobyco can deliver an engaging step counter, rewarding active lifestyles and engaging consumers in the digital ecosystem.

- ▶ Consumers can participate in walking competitions (even while doing grocery shopping) and compare their results to others, including their friends.

Second, with detailed consumption data, retailers can share behavioral insights (such as carbon footprint from grocery shopping), engaging consumers in the digital ecosystem and encouraging sustainable shopping habits.

Third, retailers can gamify their digital ecosystem and make responsibility fun – see case in point.

¹⁴ Retail Insight, 2020



- ▶ Consumers can win gifts, discounts, or vouchers, gaining in-store benefits while exercising.
- ▶ The step counter engages consumers in the app and drives traffic to the store.

5.

At Lobbyco, we believe that a digital loyalty program is more relevant than ever.

Power of insights

Power of insights: Personalizing experiences and empowering consumers with data insights

Data empowers businesses. Data-driven businesses learn how to communicate with customers, what to offer, when and where to offer it, and at which price. But are businesses able to collect the needed data? Apple and Google end third-party cookie use, which will make it more challenging for businesses to collect customer data and reach their target groups.

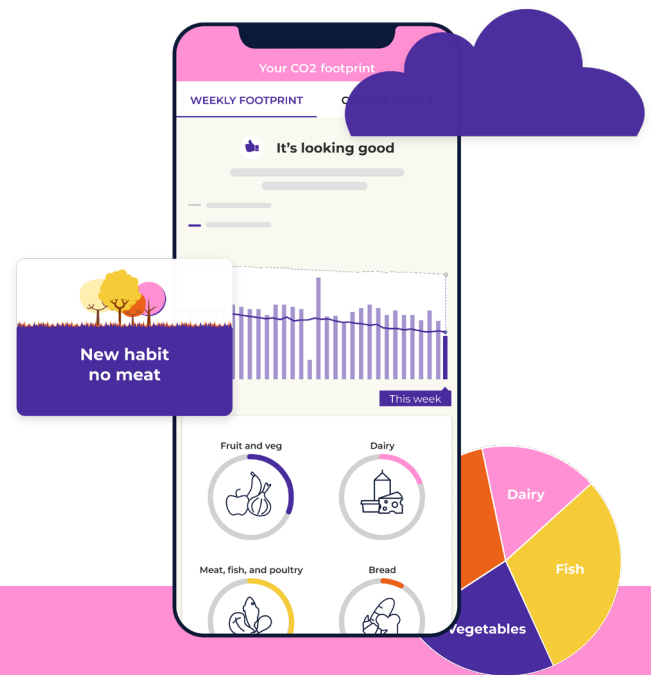
At Lobyco, we believe that a digital loyalty program is more relevant than ever. Businesses that invest in a digital loyalty program and an ecosystem centered around mobile can collect zero- and first-party data as an alternative to third-party data. In fact, both McDonald's and Burger King launched digital loyalty programs in 2021. Coupled with behavioral store data, digital retailers gain valuable insights on their customers.

While most consumers willingly share their data, they expect something in return. Here, we outline two ways retailers can meet consumer expectations.

First, retailers can personalize (and thereby improve) experiences – personalizing offers, shopping list recommendations, app feed content, and much more.

Second, grocery retailers can share behavioral insights and communicate consumer impact. With this approach, retailers democratize data and increase loyalty – see case in point.

[...] digital retailers gain valuable insights on their customers.



Case in point:

A major grocery retailer communicates carbon footprint in its mobile loyalty platform, engaging consumers and driving behavioral change:

- ▶ Consumers can view their carbon footprint from grocery shopping.
- ▶ Carbon footprint splits into categories and products.
- ▶ Users receive encouraging messages, nudging them towards sustainable behavior.

- ▶ Users can select and activate new sustainable habits.
- ▶ Just three months after launch, more than 200,000 users had checked their carbon footprint.
- ▶ The grocery retailer receives positive coverage from consumer and news media.

6.

men
ay



hi, i'm
gum

to mentos gum ?

Retail media

Retail media: Monetizing digital ecosystem

Retail media is transforming grocery retail. BCG estimates that the US retail media market will grow by 25% annually from 36 USDb in 2021 to 110 USDb in 2026¹⁵. Retail media allows grocery retailers to sell advertising space. Advertising space includes retailer-owned app, web, and store space, meaning digital retailers own much more advertising space than analog retailers. BCG estimates that retail media margins are 70-90% compared to 20% for traditional grocery retail, making retail media a major profit driver¹⁵.

70-90%



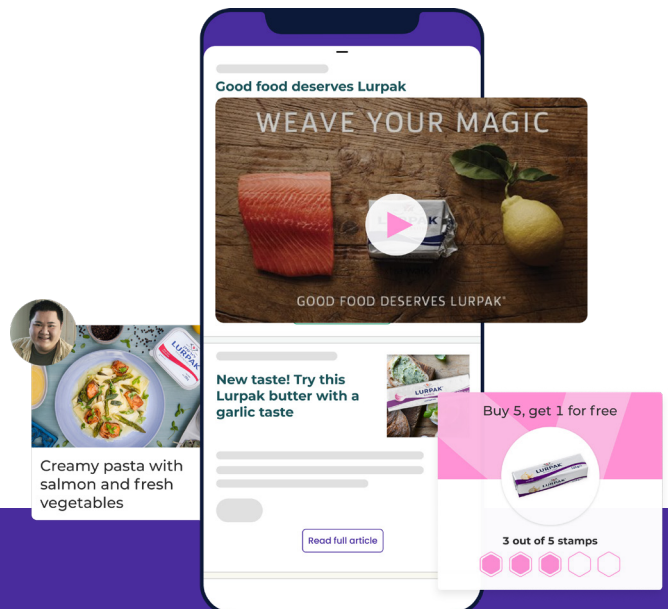
20%

Retail media margins are 70-90% compared to 20% for traditional grocery retail.

The US retail media market will grow by **25%** annually from 36 USDb in 2021 to 110 USDb in 2026.

At Lobycio, we believe grocery retailers should create a digital ecosystem centered around mobile, allowing grocery retailers (and their paying advertisers) to reach consumers at home, on the move, and in-store. Digital grocery retailers can easily monetize several mobile loyalty platform features, including recipes and shopping lists that include supplier-sponsored content, app feed including personalized ads paid by suppliers, and stamp cards with supplier-paid freebie products – see case in point.

¹⁵ BCG, 2022



Case in point:

Less than 5 months after a major grocery retailer launched its new mobile loyalty platform, consumers had already played more than 20 million games in the app.

In addition to engaging consumers and driving traffic to the store, the grocery retailer has attracted external financing. In particular:

- ▶ Suppliers finance product prizes.
- ▶ Suppliers pay a marketing fee per game.
- ▶ In less than 5 months, suppliers bought all space in the feature for the following 5 months.



Lobyco A/S
Trelleborggade 7, 1st floor
2150 Nordhavn, Copenhagen
CVR: 41480025
+45 4386 3386
contact@lobyco.com