NACS Convenience Summit Asia

NACS Convenience Summit Asia: 2024

What Have We Heard, What Have We Learned?

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NACS | LATAM NACS | EMEA NACS | APAC

- *The perfect Summit tee up…Why are we here?*
  - Korea has the highest CVS share of retail in any Asian country!
- The Asian consumer is stressed (particularly Korean)
- Uncertain world…solvency, satisfaction, survival…pessimism (Korea)
  - Consumers are back to basics
  - Looking for small happiness
  - But there is economic polarization (PL vs Big Brands)
- Searching for value
  - Back to traditional retail
  - Private label growth
- Consumers are getting complicated!

2024 Outlook at-a-glance:

Charting the future aligned to consumer solvency, survival and satisfaction

Improving - Low	potential impact in 2024
Stable – Mid-level	potential impact in 2024
Worsening - High	potential impact in 2024

Scenarios Scorecard of 2024 Consumer Pressure Points		Macro-economic impact	Consumer impact	Industry impact	**Overall Assessment**
#1 Financial Solvency	**Outlook on financial inflows** (e.g. employment, income / wages)	Low	Mid	High	**Mid-High** Slightly worsening
	The state of borrowing (e.g. Mortgage, rental, debt, interest rate, etc.)	High	High	Mid	
#2 Everyday Survival	**Commodity-driven costs** (e.g. Petrol, transport,, commuting, electricity, etc.)	High	High	High	**High** Worsening
	Household essentials (e.g. Food, grocery & Household goods)	Mid	High	High	
#3 Life Satisfaction	**Leisure** (e.g. Entertainment, Travel, recreation, etc.)	Low	Mid	Low	**Mid-Low** Slightly improving
	Lifestyle (e.g. Tech, durables, apparel, home décor, etc.)	Low	Mid	Mid	

Source: NIQ Foresight assessment

Note: This NIQ assessment follows a Delphi methodology of expert opinion and is driven by the NIQ original framework. The NIQ Global Thought leadership team have conducted and used desk based research, NIQ proprietary data and Macro-economic forecasts to give a point of view. The assessment is based on Global averages and recognizes ratings would need to be adjusted based on region, country or consumer type. The assessment is directional in nature and does not claim any degree of certainty.

Maintaining APAC consumer and shopper loyalty will be a challenge in 2024

Saving motivators for Consumers around APAC

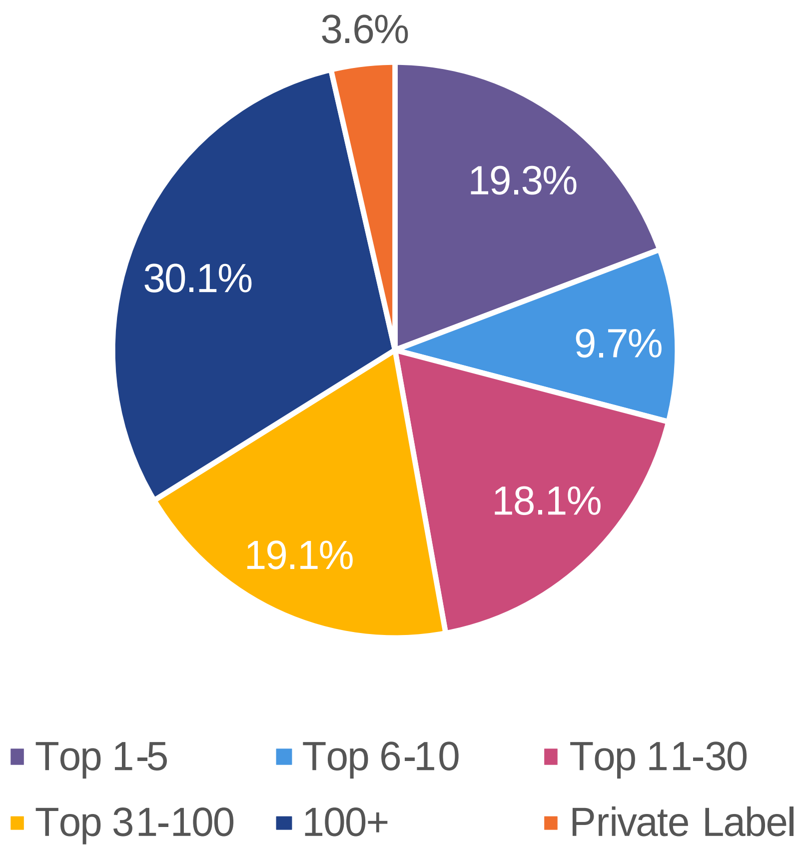
Seek lower prices	89%
Reduce overall spending	72%
Switch stores	72%
Brand/Product switch	71%
Switch size	51%
Prioritize needs	44%

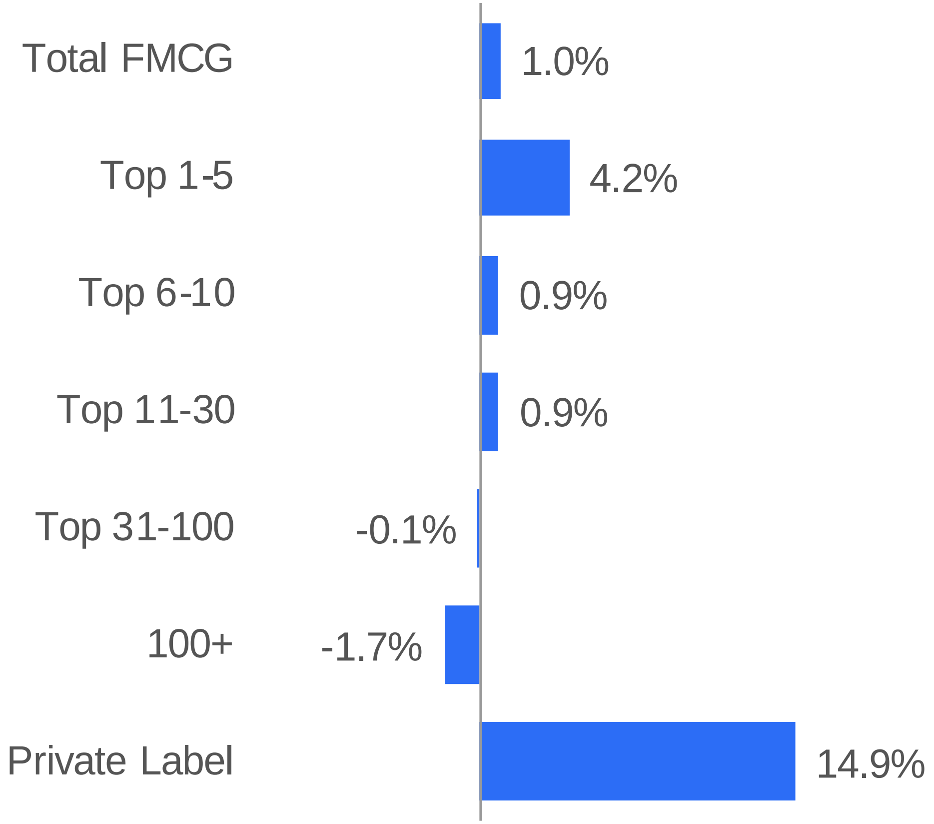
Source: NIQ Consumer Outlook 2024, APAC

NIQ

Manufacturer summary

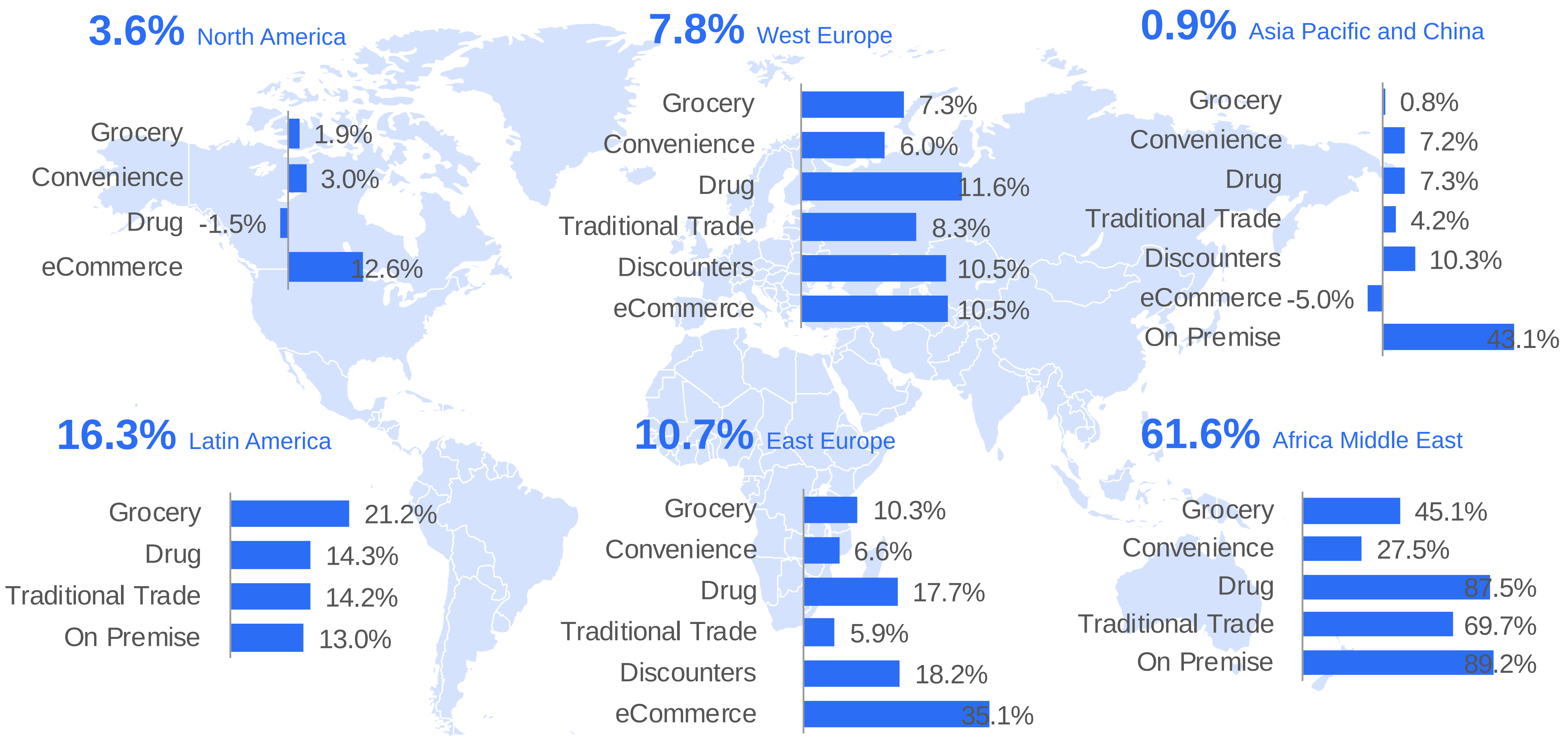
% value contribution and growth vs YA





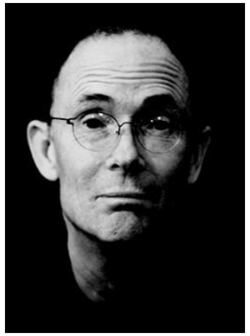
Source: NielsenIQ RMS MAT Q4 2023

FMCG Channel performance across regions



NielsenIQ

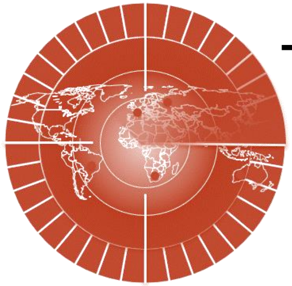
Our industry has a dynamic future…
…we just need to find it!



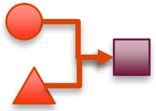
"The Future is here…
it's just unevenly distributed!"

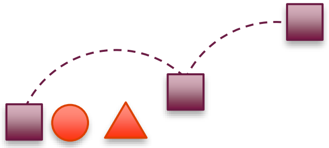
William Gibson
Canadian Futurist, 17 March 1948

Why reinvent the wheel?



→Use a ***GLOBAL RADAR SCREEN*** to learn from the experiences of others





→***Adapt*** those learnings to your local dynamics and perhaps

→***leap frog*** legacy approaches

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- Fueling
  - Short term inelastic demand
  - Long term demand will decline due to fuel efficiencies of ICEs
- Coffee – the changing journey to the first cup
- EVs – they are coming, but more slowly than projected
- Last Mile
  - Reducing friction for the consumer
  - The end of free money and the challenge to Delivery
- Labor – reinventing operations to drive labor productivity

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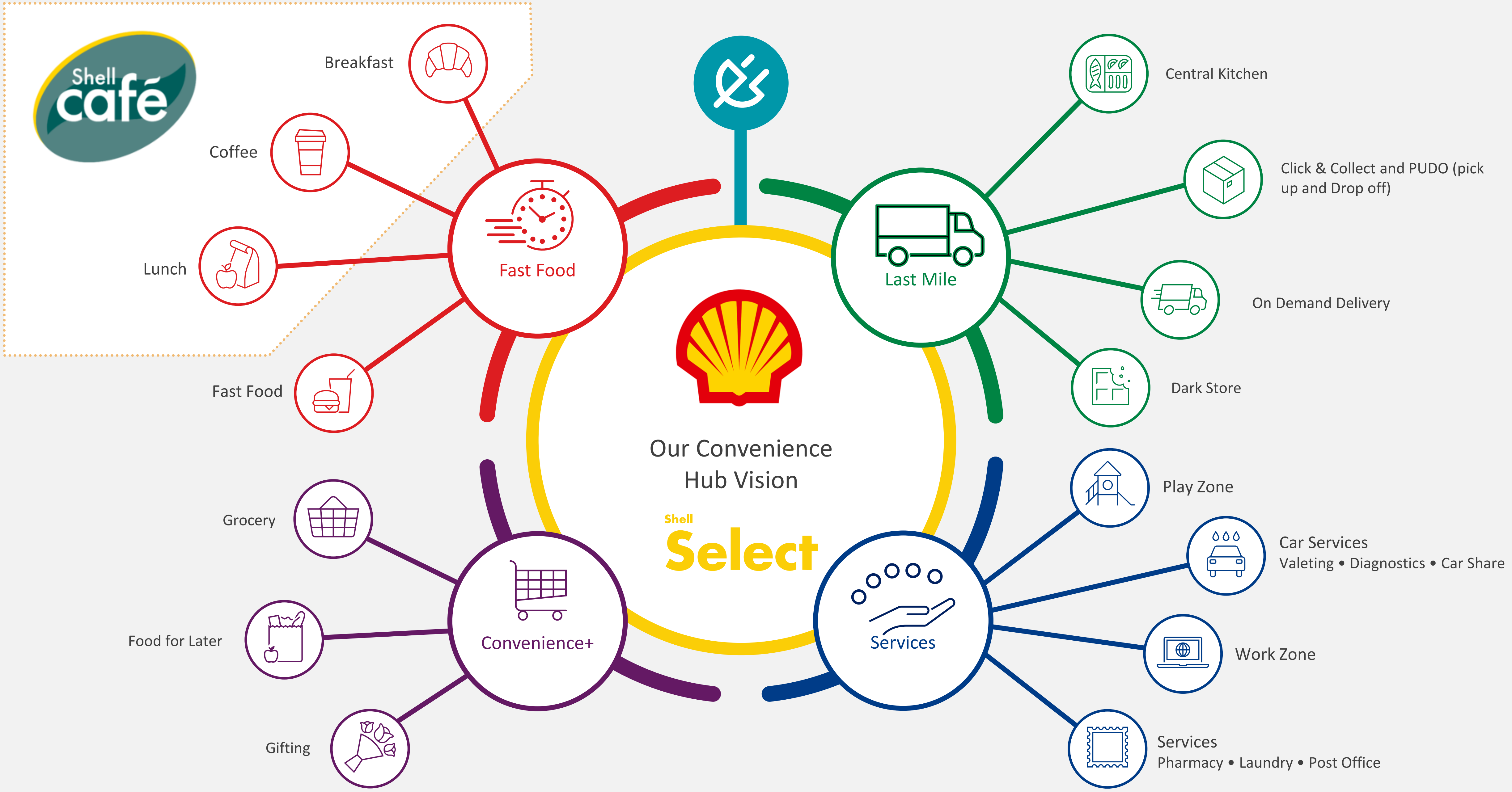
- Transformation and Innovation (particularly formats)
- 50/50 ambition for Non-Fuel Retail
- Four pillars
  - Fast food
  - Convenience +
  - Last Mile
  - Services
- Value chain management (including PL)
- Power of partnerships/sub-brands (particularly food)
- Addressing Tomorrow…Today
  - Energy transition: Fuel to Food and beyond


Shell café
Breakfast
Coffee
Lunch
Fast Food
Fast Food
Central Kitchen
Click & Collect and PUDO (pick up and Drop off)
Last Mile
On Demand Delivery
Dark Store
Our Convenience Hub Vision
Shell Select
Grocery
Food for Later
Gifting
Convenience+
Play Zone
Car Services
Valeting • Diagnostics • Car Share
Services
Work Zone
Services
Pharmacy • Laundry • Post Office

VALUE CHAIN MANAGEMENT

Financial

Higher margins on private label lines

= RETAILER PROFIT

= SHELL PROFIT

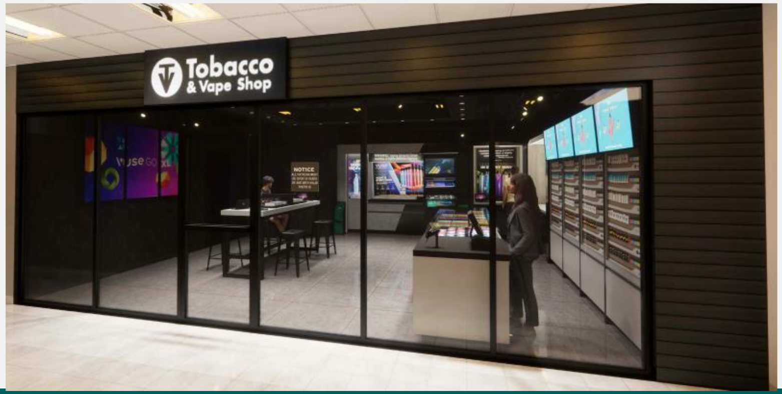
Competitive

Offering something unique that can drive traffic and reflect retailers' lines

Competitive

Meeting a broader variety of shopper needs: entry level, standard and premium speciality ranges

NEW CONCEPTS



UNMANNED

DACH Design Sample

NL Design Sample

MODULAR

The Pizza Everywhere Company – Jay Lim, Go Pizza

- Jay Lim – A problem solver!
- Food service is a VERY competitive marketplace
  - Declining population
  - Restaurant/100,000 people…the highest in the world
- Food service challenges to address
  - Difficult
  - Time consuming
  - Space
- Scalability and Consistency is the key to success
  - Dough, Oven, AI Table

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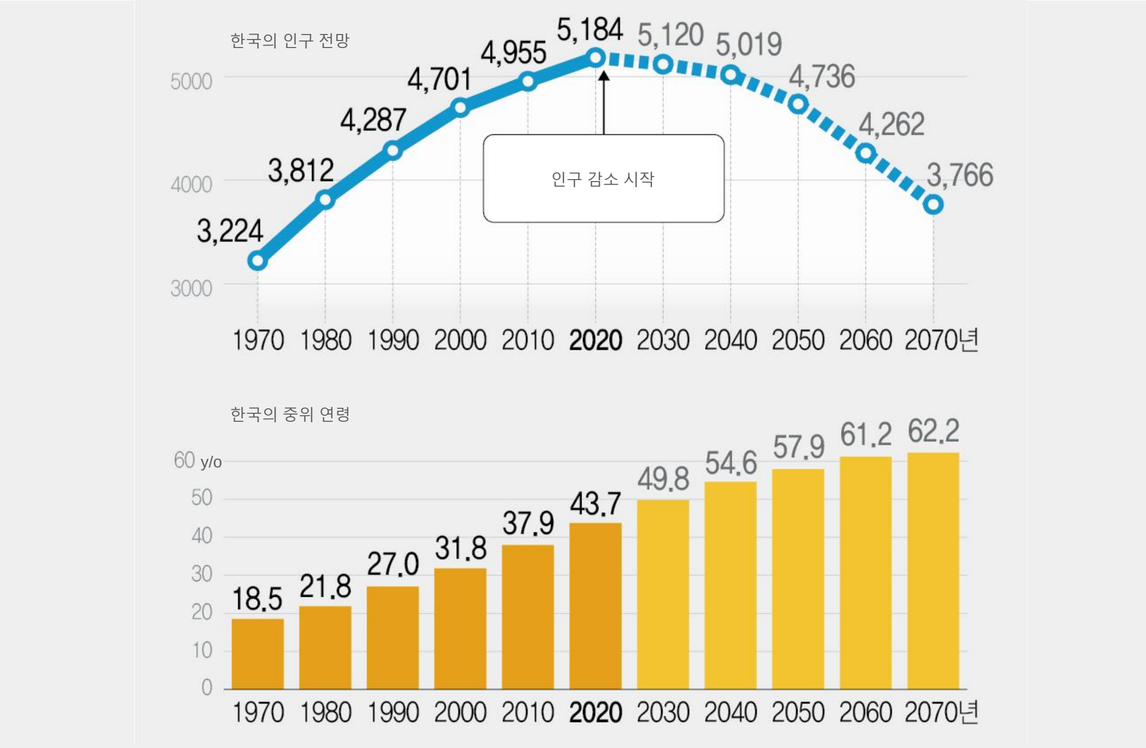
Fewer customers & #1 in the world in Competition

Aging population of South Korea



*Source: Statistics Korea (Kostat)

Customers and consumptions will decrease

Highest competition in the world

	Population	No. of Restaurant	Restaurant Per Capita	No. of Pizza Restaurants	Pizza Restaurant Per Capita
Korea	51,780,000	670,000	1,293.9	5,000	10
Singapore	5,800,000	13,000	224.1	200	3
HK	7,500,000	12,400	165.33	250	3.3
India	1,404,532,227	1,500,000	106.8	4,000	0.3
Indonesia	273,500,000	106,130	38.80	1000	0.4

*Source: Statista, Euromonitor, KOTRA, GOPIZZA Analysis

While 10 new restaurants open,
8 restaurants close in South Korea

Customer Problem = Operational Problem

Jay
(2015, working at a pizza brand)

Difficult

Proofing, kneading doughs require high labor intensity and well-trained skills

Time-consuming

Baking time takes 6-8 minutes ‘fast’ pizza is impossible to begin with

Big space requirement

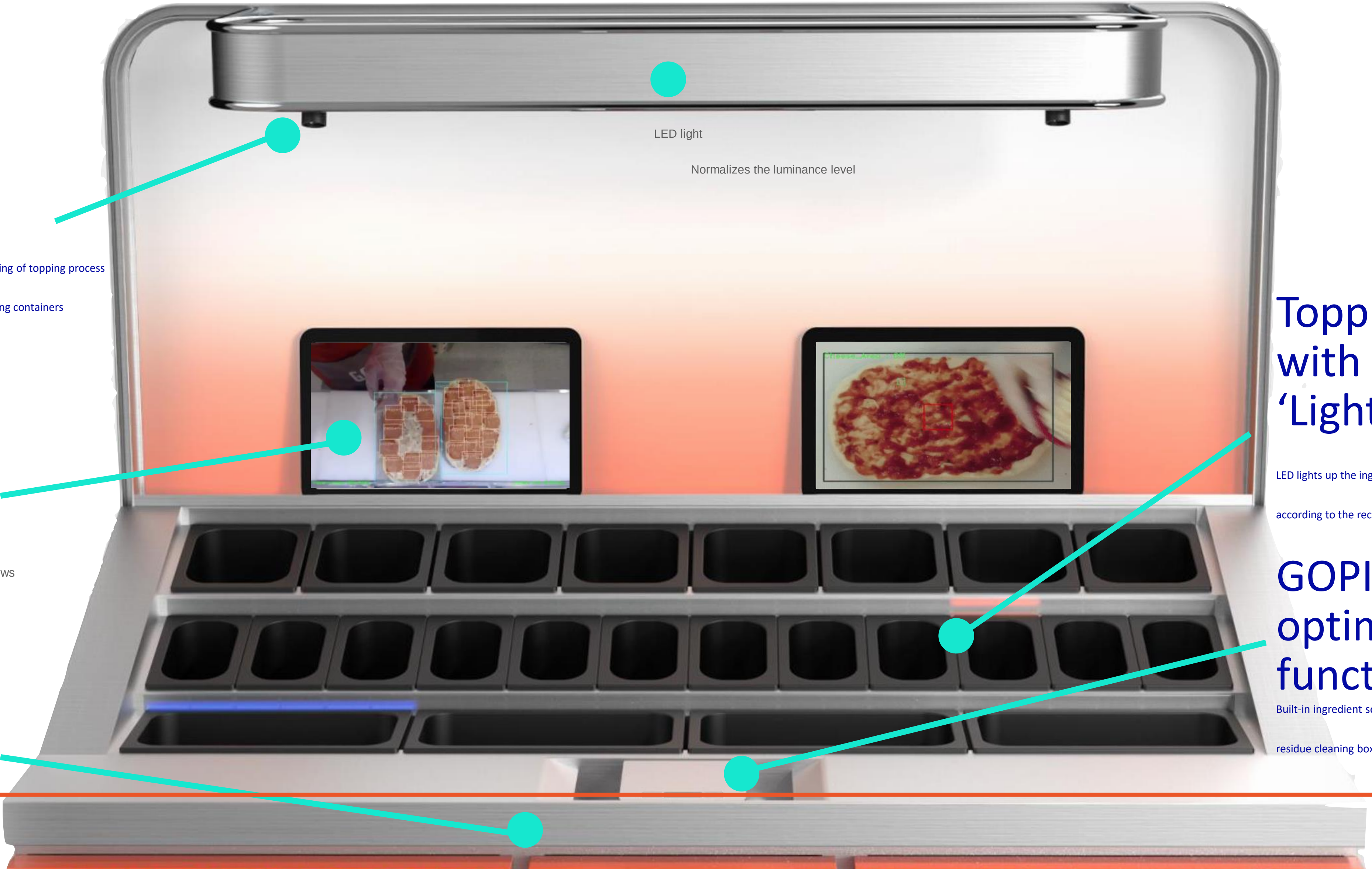
Requires a walk-in fridge and proofers, kneading space for dough and a big oven

AI Smart Topping Table

Total 4 cameras

2 cameras: Data collection and monitoring of topping process

2 cameras: Automatic indexing of topping containers



AI Topping Assist

UI & screen to guide crews

RFID Scanner

Crew identification

Topping Guide with ‘Light Up’ System

LED lights up the ingredient

according to the recipe

GOPIZZA kitchen optimized functionalities

Built-in ingredient scale &

residue cleaning box

THE SAUCE:

SCALABLE
CONSISTENT
PROFITABLE

- We’re getting older!
  - Aging in a new way…Age is an attitude
  - The older we get, the more money we have!
- But Hotter! Male “beauty”…Why?
  - For Women
  - For Jobs
  - For Self Respect
- What products are we talking about?
  - No standard sets…it all depends on the micro market

Older –how?

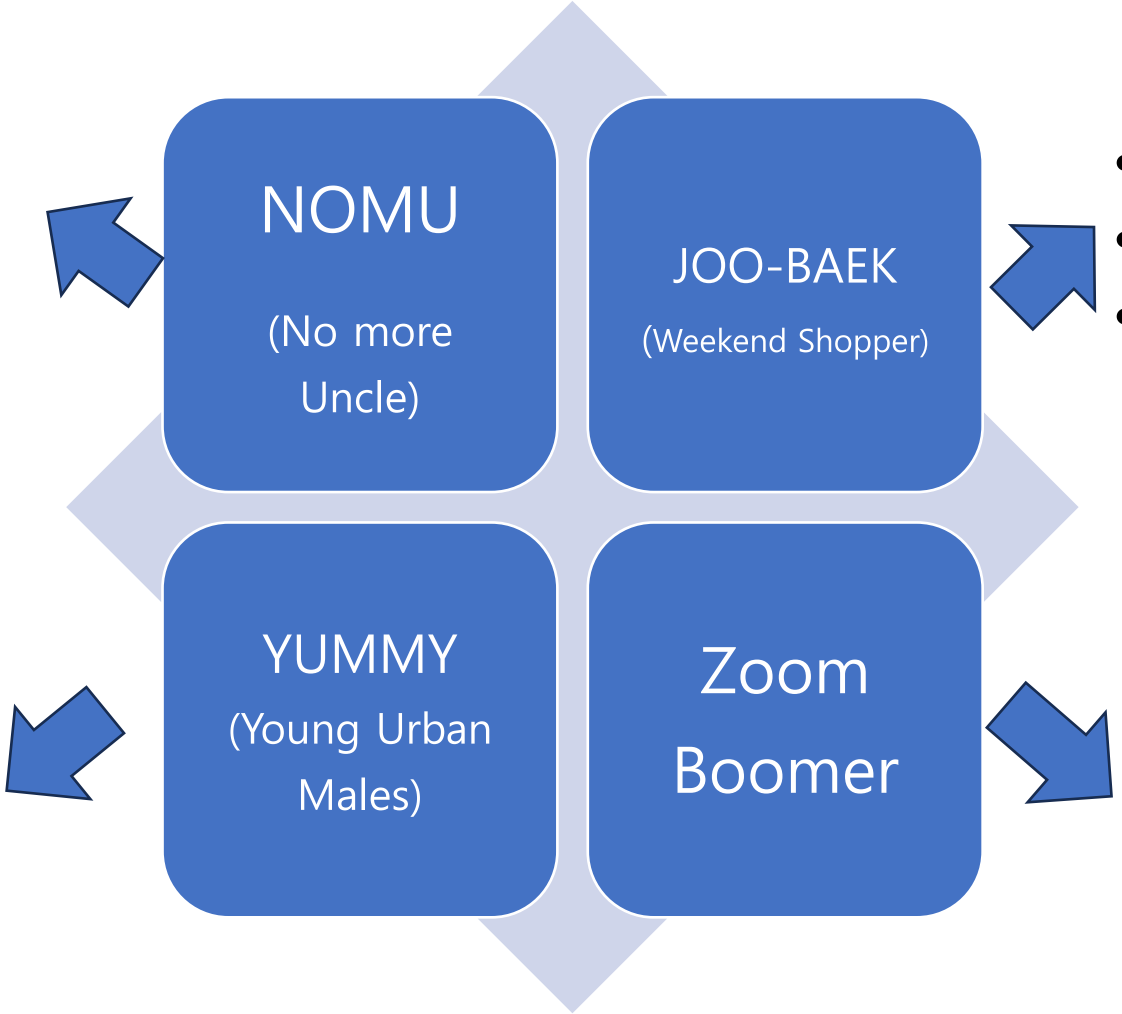
Median Age in Key Asian countries:

Japan	2024: 48	2040: 53.6
S. Korea	2024: 43	2040: 56.7
China	2024: 39	2040: 50.7

Male Beauty Market Segments
("No More Uncle" case Chang and Han, 2022)

- Newbies
- Hand-holding
- Steal wives' or mom's products

- Dept. Store Vets
- Shop alone
- Higher income

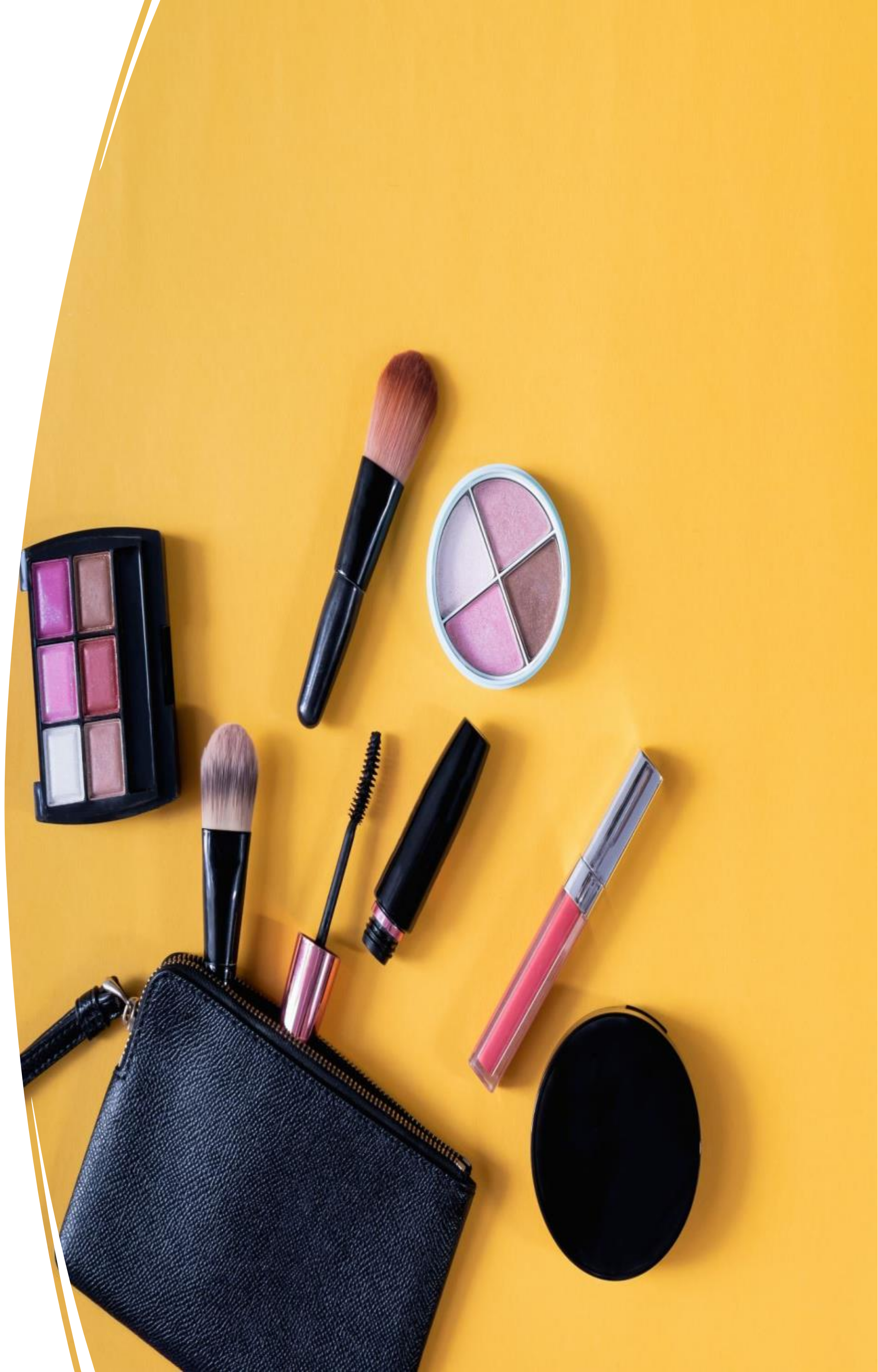


- Young Urban Pros
- Boldest User
- Consult women users

- Newest segment
- Young & Old
- Zoom Filter Newbies

Implications for Retailing
(especially Convenience Stores)

- More male-friendly or gender neutral beauty items
  - store-autonomy in merchandising emulating the new drugstores
- Unmanned biometric stores
  - fast and easy (e.g. fingerprint)
  - discreet (e.g. makeup)
- More O2O (offline-online) selling
- Co-marketing/branding



- The game is changing!
  - Intense pressure to reduce costs and to innovate
- The Zero consumer (everything is changing)
  - Zero boundaries (omnichannel)
  - Zero mainstream/moderation (scrimping and splurging)
  - Zero loyalty (searching, searching)
- Data, data, data…
  - Data analytics
    - Can you figure out what it's telling you?
    - Can you figure out what to do with those insights?
    - Product assortment, product placement

Across Asia the consumers are changing – emergence of the 'Zero' consumer

Zero boundaries

Consumers want 'phygital' experience

64%

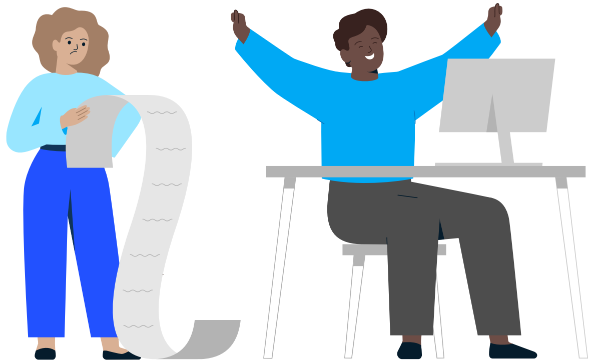
of 'groceries for home' shopping already omnichannel in South Korea

75%

consumers want more personalised, seamless omnichannel experience

25%

think retailers are good at it



Zero mainstream

Consumers both scrimp and splurge – PB on the rise, mainstream under pressure

91% & 64%

China & Korean consumers scrimp as worrying about prices

56% & 40%

China & Korean consumers splurge esp. affluent Gen Z's and Millennials

Zero loyalty

Consumers experiment and are not loyal to stores and brands

92%

Chinese consumers changed shopping habits in the last 3mo.

74%

Chinese consumers tried different stores in the past 3 months

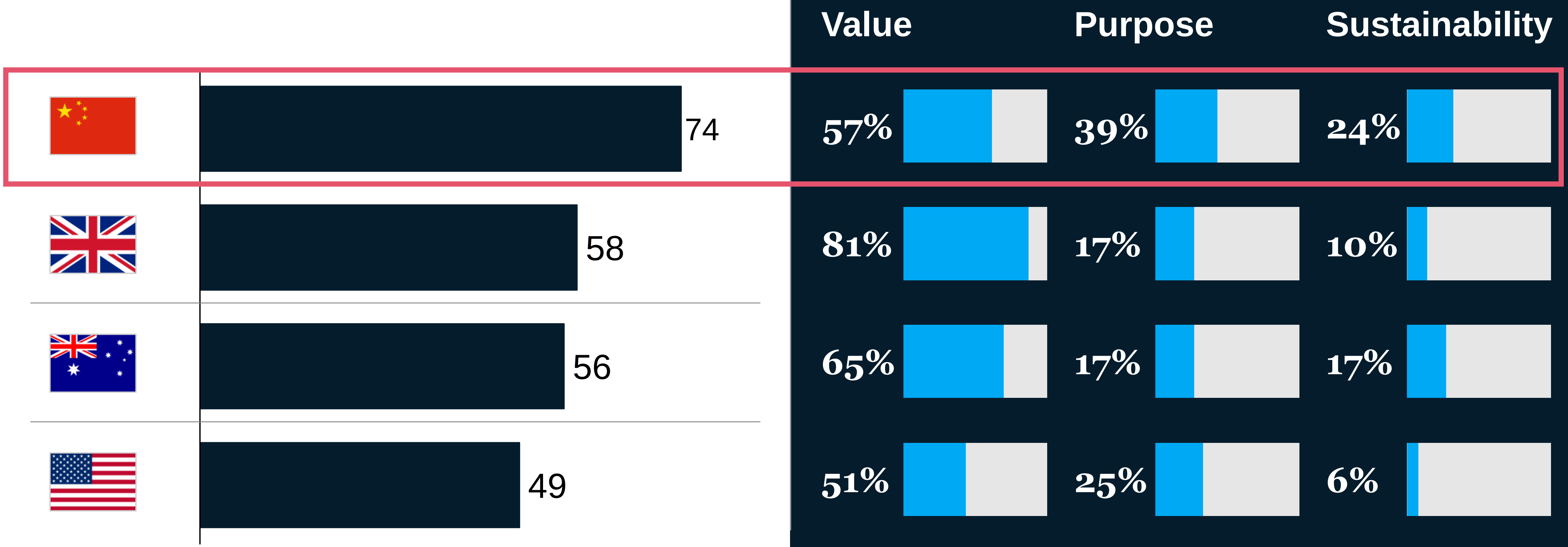
57%

of them switching for value

Zero loyalty: Consumers experiment, for value

% of respondents who tried different stores or brand in past 3 months

% of respondents selected reasons



Source: McKinsey & Company COVID-19 Consumer Pulse Survey, August 2022

(Generative) AI/ML at scale in StoreX

1 Personalized promotions in App

Promo and recommended offering (e.g. coupons, targeted ads and contents) automatically generate based on customer preferences and behavior, and delivered via mobile APP

2 Membership & loyalty program

Tiered membership to track customer loyalty and reward system to improve customer stickiness

3 Seamless online to offline food ordering

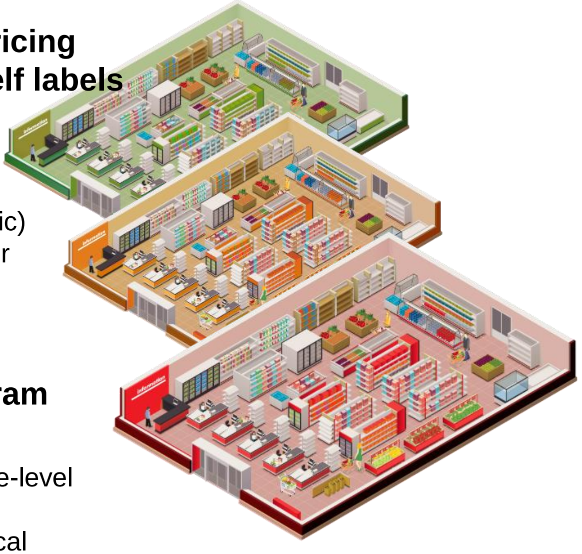
Delivering cooked food in the store that is ordered online 10 minutes ago

4 Automated store-level assortment

"Algorithms that see" to reinforce in-store assortment scoring system for product listing/de-listing, powered by in-store customer behavior data (e.g. pick-and-return, stop-by etc.)

5 AA/Dynamic pricing with digital shelf labels

Automatic pricing adjustment based on dynamic factors (e.g. holiday, store foot traffic) and dynamic pricing for fresh and perishables based on demand



6 Smart Planogram

Planogram design customized to the store-level via in-store customer behavior data (e.g., focal focus, in-store traffic flow)

7 Theft prevention

Alert created to security staff with automated checkout technology (i.e. computer vision and member identification) when anomaly is detected

8 Seamless checkout

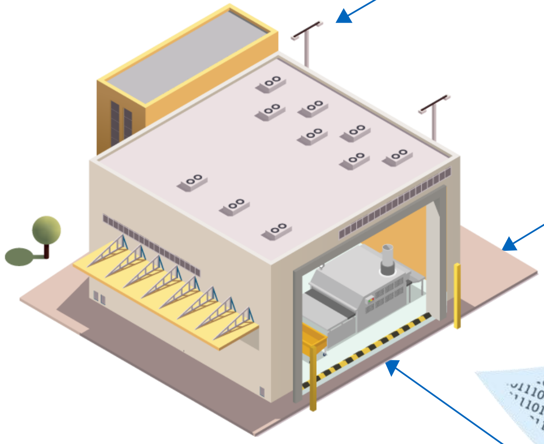
Automated checkout powered by proprietary computer vision and sensory fusion with on-shelf weight sensors to accurately detect consumers' pick & return behavior

9 Precision store management cockpit

Task system with automatically generated tasks for store staff and managers with real-time in-store data (e.g., on-shelf product availability, cleanliness, products close-to expiration date)

10 Smart scheduling

Schedule optimization based on store traffic, tasks, etc.

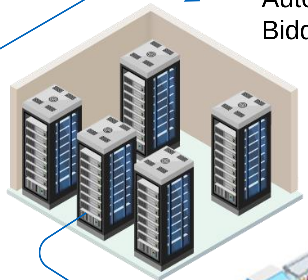


11 E2E supply chain visibility and optimization

Purchase order optimization to prevent waste and shrinkage with sales forecast and prediction of supply and demand

12 Real-time replenishment

Replenishment tasks automatically created for store staff and supervisors to resolve OOS (out-of-stock) in real-time with product consumption speed and real-time shelf status



13 Supplier negotiation assistance

Automatic negotiation playbook creation
Bidding platform for listings, promo, RMN

14 Retail media

Personalized content displayed on the digital panels to improve conversion rate for the ads; improved accuracy in tracking ads impression

Winning with Loyalty – Tom Fleming, Oliver Wyman

- The consumer is saturated with loyalty programs!
- Who is the Target?
  - Be deliberate and target the high value customer (not everyone)
- Mistakes
  - Undifferentiated, Loss making, Underexploited & Data purchasing scheme
  - Too many objectives and too much a shotgun approach
  - Discounts instead of enhancing the customer experience
- Loyalty delivers…data on customer behavior and a pipe to them
- Do you really need a loyalty program?

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SEVERAL COMMON ISSUES STOP LOYALTY PROGRAMS FROM MAXIMIZING THEIR VALUE

The following types of issues often cause retail and convenience programs to fail

Company constraints not considered during program design	**Poor strategic alignment with company objectives**	**Low perceived value**	**Lack of strategic fit with program partners**	**Expensive and inflexible to operate**
Data not leveraged to enhance the program or to inform business critical insights	**Program not fit for purpose given franchise or dealer model**	**Pain points create barrier to customers engagement**	**Customers apathetic about program due to lack of differentiated experiences**	**Lack of personalization that addresses individual customer needs**

PROGRAMS SHOULD BE REVIEWED TO ENSURE THEY HAVE THE OPTIMAL STRUCTURE

Often companies mimic existing loyalty programs, but to maximize value, a program should be tailored to a company's objectives and constraints

COMPANIES OFTEN WON'T SUCCEED BECAUSE…

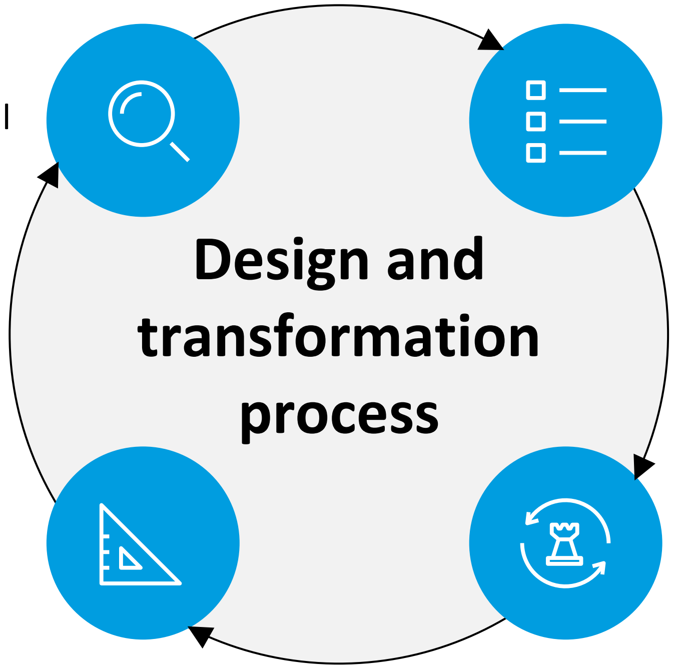
- Not clear on which objectives to pursue
- Try to accomplish too much
- Objectives aren't aligned with companies' internal constraints
- Success is not tracked

Diagnosis

- Are the program objectives clear and aligned with overall company strategy?
- Is the program worth the investment?

Considerations

- Who is the ideal customer, and how will they interact with the program?
- What are the internal constraints?
- What are the market conditions?



Tracking

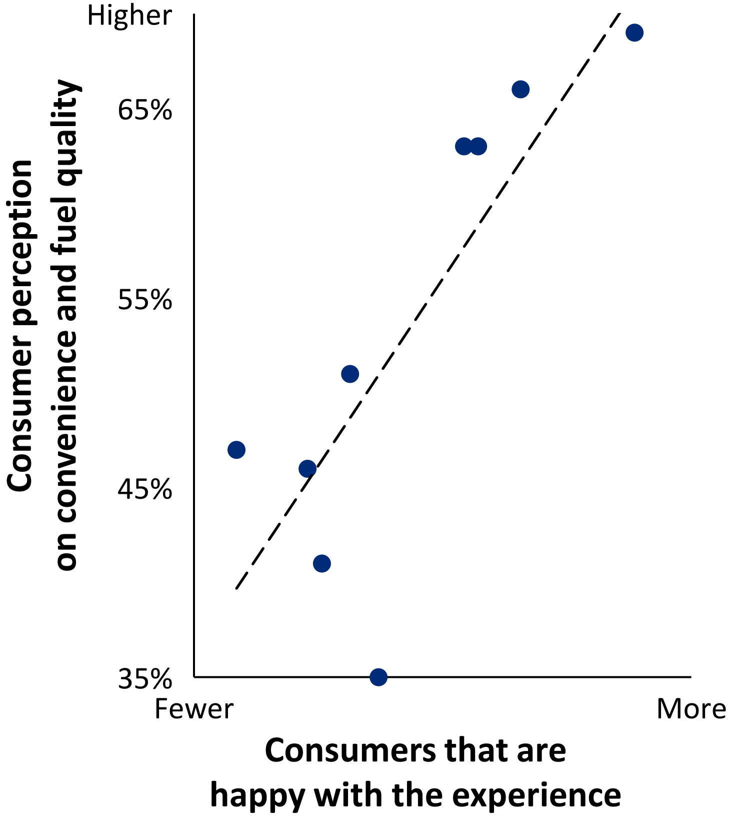
- Which KPIs are most important and how is the program performing against them?
- Is the program still fulfilling its objective?

Implications

- What is the optimal…?
  - Program archetype
  - Rewards structure
  - Partnerships
  - Technology requirements
  - Data usage
  - Etc.

A WELL-RUN LOYALTY PROGRAM CAN CREATE A POSITIVE CX THAT PROTECTS MARGINS AND INCREASES VOLUMES

A positive experience increases quality perception



● Fuel and convenience players

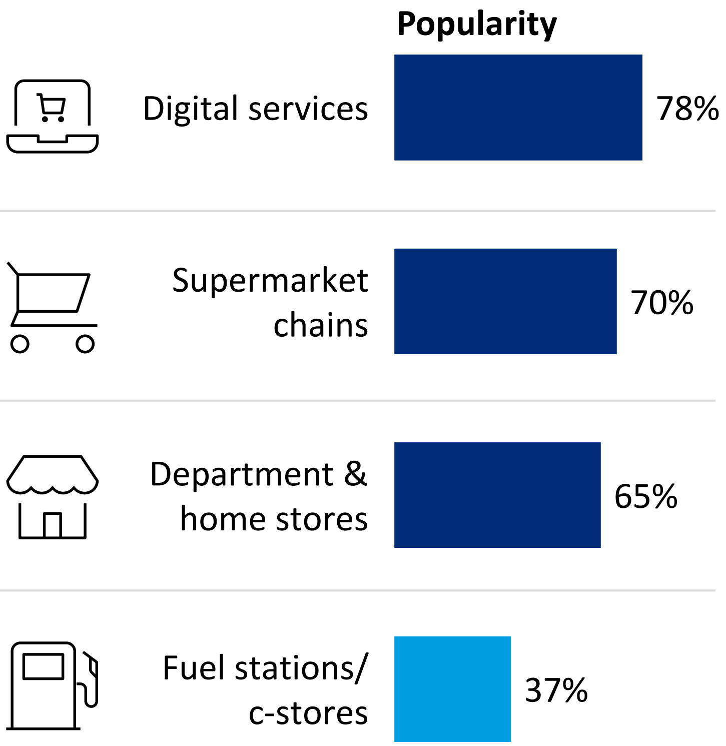
Improved customer experience also creates[4]

20-30+% Margin premium from differentiated products

17% More visits

1.9 x Lifetime value increase

Industry overall has a way to go on average to improve the experience[5]. There is lot of opportunity here!



4. See appendix; 5. See appendix. Lifetime value includes share of wallet and premium product margin increase; 6. See appendix

- Don’t you want to make money???
  - The business case
    - Expanding your potential labor force
    - Higher profits, lower turnover, more commitment
- Barriers to address
  - Maternity leave transitions
  - Childcare
  - The district/regional level bottleneck

Studies show that if women participated under the same conditions as men in the labor market, the landscape would be different.

+22%
Productivity

+39%
Customer satisfaction

+25%
Higher profitability in organizations with gender-balanced teams.

Dixon-Fyle, S., Dolan, K., Hunt, D. V., & Prince, S. (2020). Diversity wins: How inclusion matters. En *McKinsey & Company*.

Portafolio. (s. f.). *Diversidad y equidad de género: sinónimos de productividad empresarial*. Portafolio.co.

am:pm™

- Impact of disruptive technologies
  - Overestimated in short term/Underestimated in the long term
- The great enabler: Cloud-based infrastructure
- Optimizing marketing efforts
  - Price optimization (particularly fuel)
- Productivity improvement
  - Electronic shelf tags
  - Self checkout (but be careful)
  - Visual AI to direct labor where and when it's needed
- Data monetization
  - Retail media networks
- Cybersecurity
  - The risk is there…focus and invest in protecting yourself

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PRODUCTIVITY IMPROVEMENT

Electronic Shelf Tags

- Reducing store labor/expense
- Improving price/promotion visibility
- Implementing daypart pricing

Business Case (per store annually)

- Initial Setup Cost → $18K USD
- Ongoing operating costs → $4K USD
- Labor savings → $7K USD
- Paper tag supply savings → $8K USD

PDI TECHNOLOGIES

PRODUCTIVITY IMPROVEMENT

Self-Checkout

- Faster customer experience with less labor
- Using AI to eliminate friction and improve speed
- Implementing techniques to manage shrink

mashgin

Pilot Results

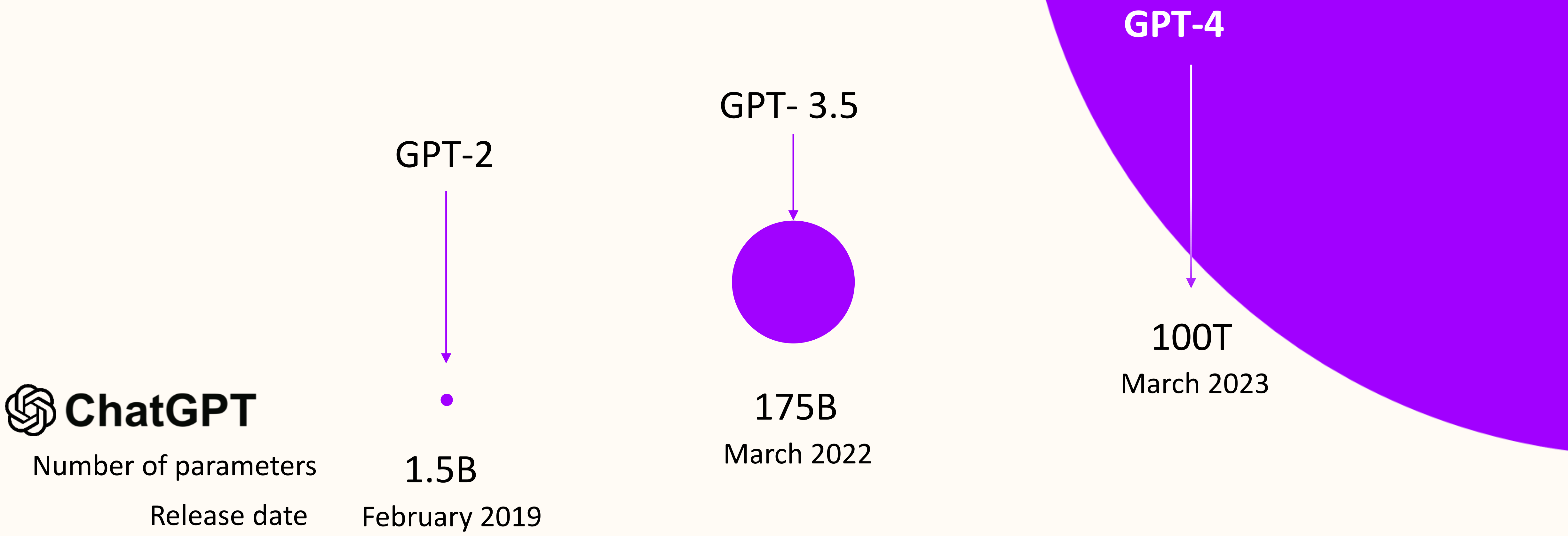
- **40%** of eligible transactions run through self-checkout
- Check out times of 16.5 seconds – **4x faster than average**

PDI TECHNOLOGIES

- Gradually…then Suddenly! Are you ready to act?
- Use case buckets
  - Spotting trends
  - Campaign development
  - Intelligent merchandising
  - Employee experience (recruiting, screening, retention
- Barriers
  - Human dynamics
  - Corporate culture
  - Skills and capabilities

Generative AI is advancing at an unbelievable pace

and it's just getting started…



Retailers believe GenAI will be transformative but many are not ready to act … are you?

83%

We anticipate new AI / Gen AI technologies will **disrupt** our industry in the next five years

BUT

75%

We will **sit on the sidelines** of Generative AI until we can better understand and manage the risks of the technology

83%

We think of our Gen AI capabilities more as an **evolving layer in our tech stack** than as a **catalyst for enterprise reinvention**

Accenture C-Level Executive Retail Pulse Research - September 2023

Let’s take a closer look at 4 Retail use cases:

Spotting & Capitalizing on Local Trends

Rapid Marketing & Campaign Development

Intelligent Merchandising

The Employee Experience

However, to get it right, you must approach it in a way that eliminates the challenges that can stop success.

The Human Dynamic

Your employees may be concerned about their jobs in light of advancements in AI. The future will be Human + Machine to drive productivity.

Culture

The culture of the organization will dictate how quickly AI technologies will be adopted.

Skills & Capabilities

Employees must be re-skilled and trained to take full advantage of AI / Generative AI in the workplace. It will require a fundamental shift in mindset to be successful.

Data Availability & Quality

Taking advantage of AI requires large volumes of high-quality and diverse data. Garbage in / garbage out still applies.

Security

AI systems can be vulnerable to security threats – ensuring these systems are safe and secure is of the utmost importance.

IP & Legal

AI systems are quickly evolving and are getting ahead of intellectual property and legal considerations.

- Moving fast to survive!
- Responding to the high single person household demographic in Korea (34%)…frequent small baskets…and market saturation (2.3x Japan)
- Creating multi-faceted destinations
  - Ultimate Life Hub
  - Trend Playground (product innovation)
  - Tech-based Services
- Emotional connections drive loyalty (formats and experiences)
- Leveraging store locations and logistical pipes for omnichannel plays

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Korean CVS has evolved into multifaceted destinations, staying ahead through innovation and adaptability.

1

Ultimate Life Hub

Serving one-stop destination for various lifestyle needs

- **Expanded services** *(e.g., discounted parcel delivery, ½ price)*
- **Specialized stores** *(e.g., fresh produce, stationary, candy, pizza specialty stores)*

2

Trend Playground

Facilitating discovery of new trends

- **Unique products** *(e.g., collaborative product launches)*
- **Cultural Experience** *(e.g., themed festivals)*

3

Tech-based Services

Taking convenience to the next level by embracing technology

- **Digital Transformation** *(e.g., cashier-less stores)*
- **O4O** *(e.g., apps with virtual storage for BOGO product)*

Today's innovative and unique CVS products prioritize not only product excellence but also the element of fun.

	As-was	As-is
Key Buying Factor	**Proven product excellence** (taste, quality, price)	**Element of fun** (fashionable, novel, trendy)
Products that..	• are **endorsed by celebrities** • boast enhanced **taste and quality at affordable prices**	• Private label/exclusive oriented • collaborated with trendy brands and characters • highly sought-after • can produce **viral content**

(Example) Additionally, products like "Jumbo Dosirak Ramen" fulfill the younger generation's desire for fun.

Jumbo Dosirak Ramen

- 8x size version of the familiar product
- Adding a playful twist to a conventional product created a significant viral effect
- Star influences have participated in **eating challenges, including star YouTuber Tsuyang** (9.29 millio subscribers).

Sold 1.2M unit in 2023

Netflix Collab

- Capitalizing on the rising trend of home drinking and increased OTT viewing.
- Designed for eating while streaming OTT content at home(products typically enjoyed while watching Netflix, such as popcorn and beer.)

Sold 1.7M units in 2023

Note: 1. meokbang refers to 'eating show', an online audiovisual broadcast in which a host consumes various quantities of food while interacting with viewers.

Immersive and culturally enriching experiences forges emotional connections and loyalty towards the CVS brand.

Café theme

Traditional concept

Residence area

6 concept stores in operation that serve as hubs for trendy experiences, each offering distinct atmospheres and product assortments.

- Chinese CVS
  - Population density
  - Government regulations shape the industry composition
  - e-commerce
  - Urban delivery (lends itself to the Pizza Model!)
  - Fragmented competitive set
- Fun Bean – Obsessed with food!
  - Culinary culture that focuses on distinct local preferences
  - Beverages – Green Bean Slush, Soybean milk
  - Foods – Responding to local delights

China C-store Market

- CHARACTERISTICS -

03 E-commence and home delivery well developed

1. E-commence matured

- In 2022, e-commerce sales reached 43.8 trillion yuan (US$6.3 Trill)
- The total online retail sales is 13.8 trillion yuan (US$ 2.0 Trill)
- 30% of the total physical consumption comes from online sales channels

2. Rapid growth in urban home delivery services

Home delivery services are growing rapidly and have become a daily service used by ordinary Chinese consumers

For example: Meituan

- takeout orders: 17.7 bill per year
- Active food delivery users: 540 mill
- Delivery personnel: 10 mill

3. Developed express delivery industry

- Express delivery volume: 132 bill pieces
- The per capita per year delivery volume: 100 pieces

Fun Bean Foodservice Innovations

- INNOVATION -

China: culinary culture diversity

People: local food obsession

Understanding: local taste food based on local customer preference

Fun Bean FS Attempts:

- INNOVATION -

Dining habits understanding:
hot food (warm)

Dinning habits understanding：
Local taste recognition

Based on the above understandings, bold innovative attempts made

Seoul Store Tours – Key Takeaways!

- The diversity of Seoul…wet markets to Gangnam
  - The diversity of formats
- The demographic and competitive pressure to innovate
  - Saturated market, declining population
  - Laundromat, unmanned stores, postal, wine, shelf tag, +++
- A culture of honesty
- Coffee everywhere…from basic to Arabica!
- Digital=signs≠systems integration
- Low level of food service relative to other Asian markets
  - Food service = microwaves

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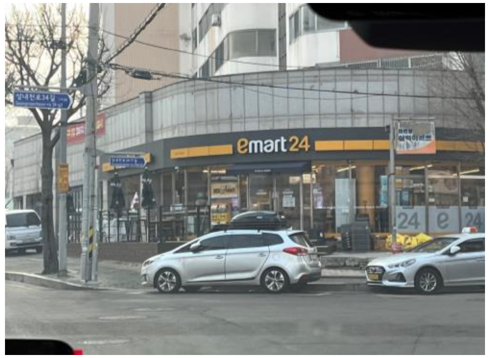
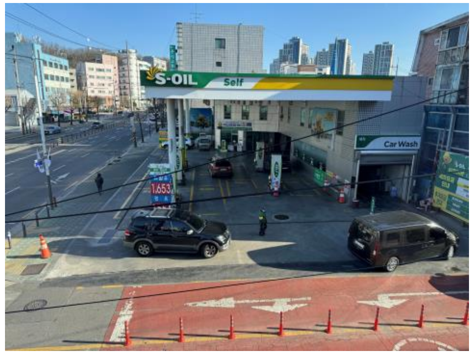
Tuesday Store tour Debrief





For more information, ask your NACS representative to connect you with the experts on this concept

As seen at the 2024
NACS | Convenience Summit Asia

Wednesday Store Tour Debrief

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As seen at the 2024
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Congrats to our award winners!

- Angus McKay: Asia-Pacific Industry Leader of the Year
- Sinopec Easy Joy: Asia-Pacific Sustainability Award
- Fook: Asia-Pacific Technology Implementation Award
- Tops Daily: Asia-Pacific Convenience Retailer of the Year

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