

SUPERMARKETS BECOME A NATIONAL ADVERTISING MEDIA

Why the growing reach, penetration and effectiveness of digital advertising networks based in supermarkets are making them a common sense investment for national brands

October 2006



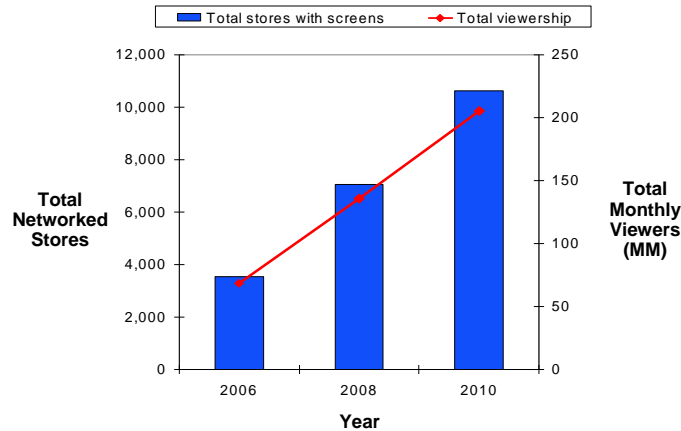
PROFITABLE
CHANNELS

EXECUTIVE SUMMARY

Supermarkets Become a National Advertising Media

- **Supermarkets are reaching critical mass as a national media this year.** Most of the top grocery chains have launched or planned an in-store advertising network. The 3,500 chain stores that have installed digital ad networks reach an audience of over 67 million viewers nationwide every month in 18 of the top 25 DMA's. This supermarket audience is expected to grow to over 205 million viewers in 10,500 stores by 2010.

Forecasted Growth of In Store Advertising Audience In The Top 50 Supermarket Chains



Source: Profitable Channels Analysis of In-Store Television Deployments in Top 50 Supermarket Chains, Nielsen Supermarket Traffic and Viewership study, May 2006

- **The audience and impact of this media have become accepted facts.** Two recent in-store traffic and audience research studies – one from a consortium of ten leading marketers and retailers called The P.R.I.S.M. Project, and a separate supermarket study conducted by Nielsen New Media Research – have credibly measured the “grocery audience”. And over 50 individual brands have conducted advertising impact studies that consistently demonstrate the positive impact of this media on sales.
- **Supermarkets represent a unique media opportunity for national advertisers.** Advertising in grocery stores offers marketers the best combination of reach, proximity to sale, and measurable sales impact of any national media.
- **The leading national ad networks can deliver this national audience to advertisers today.** National advertisers can reach this audience today by working with a handful of professionally managed national ad networks that offer the critical services needed to leverage this new media - national network operations, quality custom programming, national ad sales, and performance measurement.
- **Advertising in the grocery channel is smart, safe and profitable for consumer brands.** Consumer brands can buy a highly relevant audience and measurable sales impact at prices at or below traditional broadcast or cable TV. Early entrants to the media can enjoy material benefits by blocking competitors through category exclusive contracts currently being offered and gaining direct experience with an increasingly important marketing format that can help maximize the return on national media and better influence customers during “the first moment of truth”

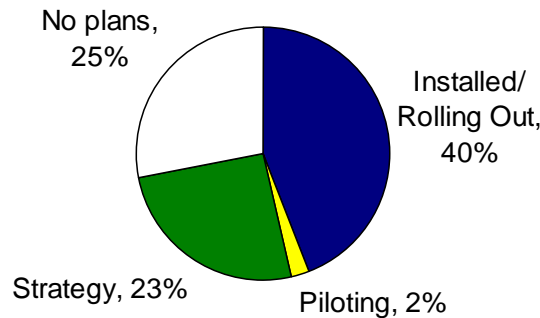
Why Should You Care About Digital Advertising Networks In Supermarkets?

This year marketers will shift more than \$1.2 Billion in national media spending into out-of-home digital advertising networks - which deliver advertising in stores, movies theatres, office buildings, doctors offices and malls – in order to offset many of the limitations of traditional media, including declining national television audiences and the fragmentation of media channels, and the lack of accountability and measurable impact of ads on sales. Brand managers that rely heavily on grocery channels should care about these ad networks because they reach customers closer to the “moment of truth” where they are making purchase decisions and generate measurable ad and sales impact for packaged goods and HBA brands.

Supermarkets are reaching critical mass as a national media this year.

Thirty of the top fifty supermarket chains are planning or executing in-store television networks, including seven of the top ten largest grocery chains. These chains have already installed digital ad networks in over 3,500 stores nationwide and are rolling out, piloting or planning ad networks for three quarters of the chain grocery stores in the country.

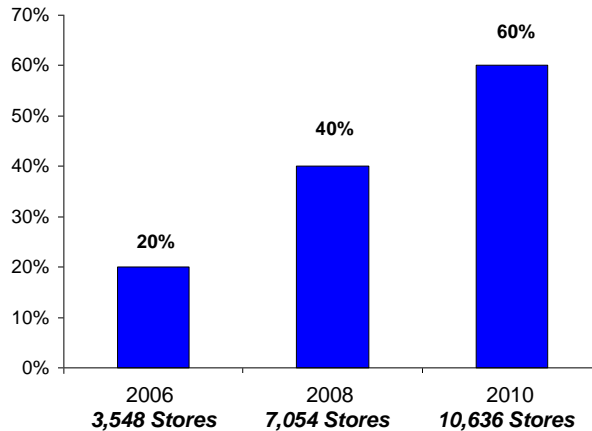
**Supermarkets Planning or Executing Digital Advertising Networks in 2006
(Percentage of Total Chain Stores)**



Source: Profitable Channels Analysis of In-Store Television Deployments in Top 50 Supermarket Chains, based on 17,600 total supermarket chain stores

These installed networks have achieved significant penetration in 18 of the top 25 DMA's and reach a national audience that exceeds 67 million viewers nationwide every month based on a new traffic and viewership study released by Nielsen Media Research in May 2006 and an analysis of the top 50 grocery chains in the appendix of this report. Based on the chains that have already installed or announced they are rolling out in-store advertising networks, the supermarket audience is expected to grow to over 205 million viewers in 10,500 stores within five years.

**Network Penetration of The Top 50 Supermarket Chains
(% of Stores With Digital Advertising Networks)**



Source: Profitable Channels Analysis of In-Store Television Deployments in Top 50 Supermarket Chains

The audience and impact of this media have become accepted facts.

A growing body of research has credibly measured both the reach and effectiveness of digital ad networks based in supermarkets. The most recent research conducted by the top marketing, retail, and media research companies in the industry have created a general consensus on how big the

“grocery audience” is, how to effectively measure this audience, and how much sales impact digital advertisements actually have.

These studies add to a growing body of consumer research which reasonably demonstrate that

- 1. Supermarket viewership can be effectively measured.**
- 2. In-store digital advertising networks materially impact brands and sales.**

The findings of these studies are summarized below and sourced in the appendix.

1. Supermarket viewership can be effectively measured. Two significant new audience measurement and viewership research studies announced in the last thirty days – one from a consortium of ten leading marketers and retailers called The P.R.I.S.M. Project, and a separate supermarket study conducted by Nielsen Media Research for the SignStorey network - show that in-store traffic can be accurately and practically measured and credibly translated into ratings of the in-store audience on a store, chain or national level.

The P.R.I.S.M. Project⁷ (which stands for Pioneering Research for an In-Store Metric) is a research study conducted by a group of marketers and retailers assembled by the In-Store Marketing Institute that effectively measured in-store marketing reach in May 2006. This study used infrared sensors and direct observation to accurately track and count how many shoppers walked around grocery stores, where they went and what they saw. The study measured store level traffic in the specific areas of the store anywhere brands are being promoted or advertised – including the aisles, perimeter, entrance and exit. The research was conducted in 10 retail stores in May 2006 for one month and was designed and supported by Wal-Mart, Kroger, Albertsons and Walgreens. The research consortium - lead by P&G, Coca Cola, Kellogg's, Miller Beer, 3M, and Walt Disney - used this detailed in-store traffic analysis to:

- Create a formula that can accurately predict how many shoppers will pass a given spot in a store at a given time using basic information from POS systems and other easy to get information (e.g. store format, product category)
- Agree on an in-store marketing metric (called in store GRP) that credibly measures the “grocery audience” in a manner that marketing and media planning executives agree is meaningful.
- Prove that accurate projections of chain-wide reach and exposure can be made with only limited amounts of information and a store level traffic analysis

The most recent traffic and viewership study conducted by Nielsen Media Research¹ in May 2006 of the SignStorey network furthers the P.R.I.S.M. findings, and represents a practical approach to verify store traffic and viewership of in-store digital video media. This Nielsen Media Research study measured and validated the supermarket audience by first counting the number of unique shoppers going in and out of the stores and to the specific areas in the store where screens are placed. These shoppers were then intercepted to determine dwell time and screen viewership. This analysis shows the “grocery audience” for Albertsons, Pathmark, and Price Chopper stores audited in the study, exceeds 8,000 unique viewers per store per month.

These studies are important because they provide the two remaining “missing ingredients” that media buyers and marketers feel they must have to include grocery stores in the media planning process. The first missing ingredient is a practical model for measuring how many people are exposed to media and promotions inside the stores. The second missing ingredient is a “ratings metric” that everyone can agree upon which accurately measures the in-store audience. Accurately measuring in-store viewer impressions (or ratings) on an “apples-to-apples” basis with TV and Cable networks is important to media buyers who need these metrics to allocate, buy and plan this media along with other elements of their media strategy.

These two “missing links” - when combined with the proven ability of retailers to count total store traffic and measure category sales using POS data - form the basis of a simple formula that help media planners consistently measure viewers on an aisle, store, chain or national level.

While the P.R.I.S.M. approach to measuring the “grocery audience” is groundbreaking in its methodology and the consensus it created, the Nielsen New Media audit approach to measuring this audience is practical today. Media planners can come up with a realistic measure of the “grocery audience” by plugging the retail “foot traffic”, screen viewership and visit frequency data provided by the Nielsen study into the simple three part equation outlined below.

An Equation for Translating Out-of-Home Traffic to Viewer Impressions

$$\frac{\text{Total traffic at venue per month}}{\text{Trips to venue per month}} \times \text{Screen viewership (\% of shoppers watching the screens)} = \text{Unique viewers per month per venue}$$

- Total Traffic: The actual households visiting the venue and passing the screens.
- Screen Viewership: The percentage of shoppers determined to be watching the screens.
- Trips to venue per month: The number of trips customers make to the venue in a given period. This is typically one month or 28 days, depending on the grocery network.

For example, the Nielsen study found that for the SignStorey network over 50,000 shoppers visit a given store in a month and the average shopper makes 2.3 visits over that period. Three quarters of these shoppers (77%) go to the areas where screens are visible for over nine minutes and over one third of them (38%) watch and listen to the screens on a given day. Using the simple equation outlined above, this projects to over 8,000 unique viewers per month, and over 10 million unique viewers and 24 million total viewers across the 1,210 stores in those chains that are broadcasting programming and showing advertisements.

Translating Supermarket Traffic to Viewer Impressions¹

$$\frac{50,750 \text{ visitors per store per month}}{2.3 \text{ trips to store per month}} \times 38\% \text{ of shoppers watching the screens per visit} = 8,356 \text{ unique viewers per month per store}$$

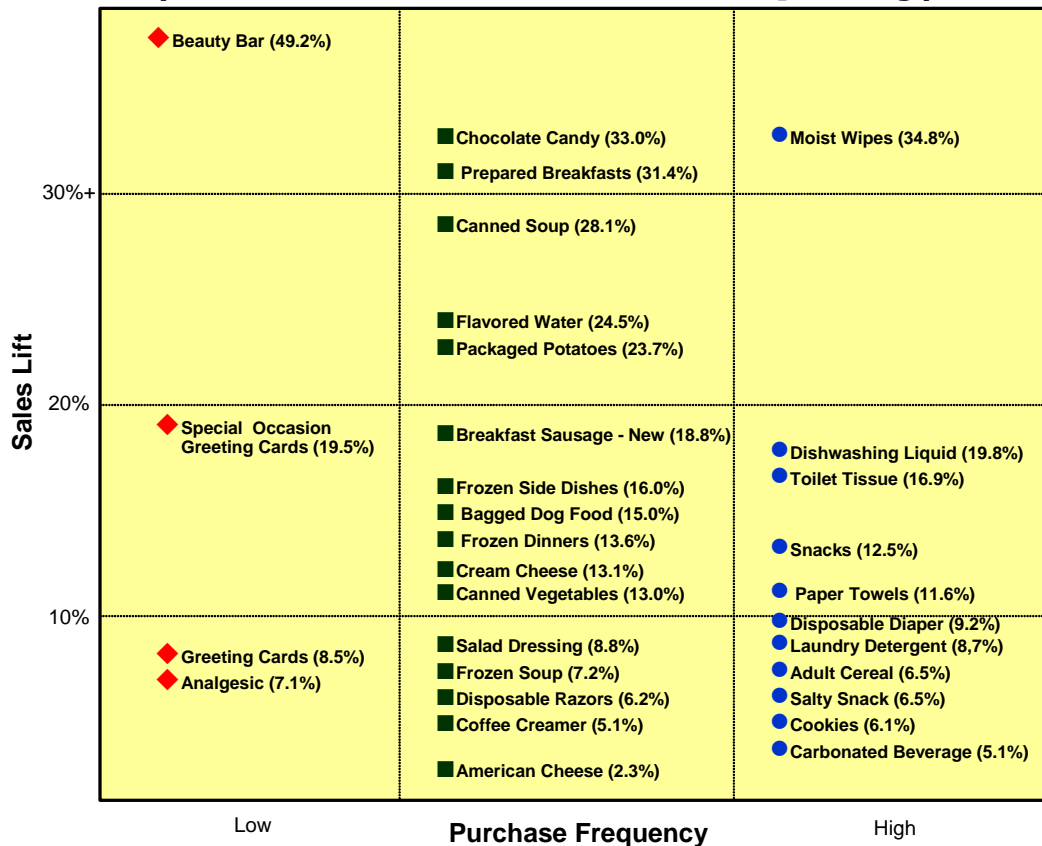
1.Nielsen New Media Services Traffic and Viewership Study of the SignStorey network, including Albertsons, Price Chopper and Pathmark stores, May 2006

Extrapolating this store level audience to the 3,500 grocery stores that have installed digital advertising nationwide, this translates to a total national audience of over 67 million monthly viewers. This estimate is probably conservative given the level of confidence that the P.R.I.S.M. Project team had in the reliability and scalability of store level audience data, and the size ranges of the grocery store formats used to generate these particular audience ratings.

In-store advertising impacts brands and sales. The proximity of this media to the purchase decision and point of purchase generated positive sales lift for every packaged good and HBA brand that has tested the channel. MASI International, a market research company, studied the impact of in-store digital advertising on sales in different supermarket chains across the country. This controlled “single

source” research is designed to test the incremental sales impact of out-of -home digital advertisements running in matched panels of stores, usually 15-20 stores running the ad, compared to sales in 20 control stores without the digital ads. This research was conducted for over 50 different brands across a variety of packaged goods and health-and-beauty aid categories. In each case, the advertised brands aired brand-sell TV ads and in all instances the advertising was able to persuade the shoppers to buy more products, right then and there. Virtually all brand categories tested showed positive lift without a sales promotion or incentive running in the store or market. The results for over 30 brands are plotted on the chart below.

The Sales Impact of Digital Advertising In Supermarket On Brands (Sales Lift vs. Purchase Frequency)



Source: MASI single source ad impact research at Pathmark, Price Chopper, Albertsons, Acme and Jewel supermarkets 2005 and 2006.

Advertising in-store has advantages beyond making sales impact more measurable. A series of studies have found that the close proximity to the purchase decision combined with the greater relevance of the grocery store to packaged goods and HBA brands can improve the impact of advertisements on both brand perceptions and purchase intent.

Independent studies by TNS Research⁵, Nielsen New Media Research¹and Guideline New York² conducted at many different grocery chains - Wal-Mart, Albertsons, Jewel, Pathmark, and Price Chopper - all showed that over 80% of customers who viewed the ads said they influenced their decision to purchase the advertised brand in the future. The most recent research shows in-store ads positively impact purchase intent in both the short and long term, effectively support the launch of

new products on a store level, and create competitive advantage by convincing some customers to “switch” brands at or near the “first moment of truth”.

The chart below highlights these findings.

The Impact of Digital Advertisements in Supermarkets on Brand Perceptions and Purchase Decisions

An easy way to learn about new products ¹	89%
Influenced my decision to buy the advertised product in the future ¹	80%
Influenced my decision to buy the advertised product today ¹	73%
Think more positively about the products being advertised ²	81%
Influenced my decision to buy the advertised product instead of the product I intended to buy ¹	57%

Source: 1. Nielsen New Media Traffic and Viewership Study, May 2006
 2. Guideline New York Advertising Awareness and Recall Study, November 2005

Supermarkets represent a unique media opportunity for national advertisers.

Supermarket-based digital ad networks offer marketers distinct advantages over other national media: proximity to the sale, better ways to target media in support of new product launches, and measurable sales impact. With 20% of chain stores already having installed digital ad networks, supermarkets have achieved the highest level of penetration of any venue except movie theatres, where over two thirds of cinemas offer digital advertising to marketers.

Network Penetration of Digital Ad Networks by Venue Type

Venue	Outlets	# Available Outlets	# Installed Outlets	Network Penetration (% Installed Outlets)
Cinemas	Movie Theatres	6,012	3,968	66%
Grocery Stores	Supermarkets (top 50)	17,600	3,538	20%
Big Box Retail	Stores	47,000	4,195	9%
Office Buildings	Class A Office Buildings	13,511	1,000	5%
Shopping Malls	Class A Shopping Malls	2,403	150	3%
Gas Stations	Gas Stations	120,902	100	< 1%
Doctors Offices/ Hospitals	Physicians Offices	292,062	11,000	< 1%
Cell Phones	Cell Phones & Wireless Devices	213,000,000	N/A	N/A

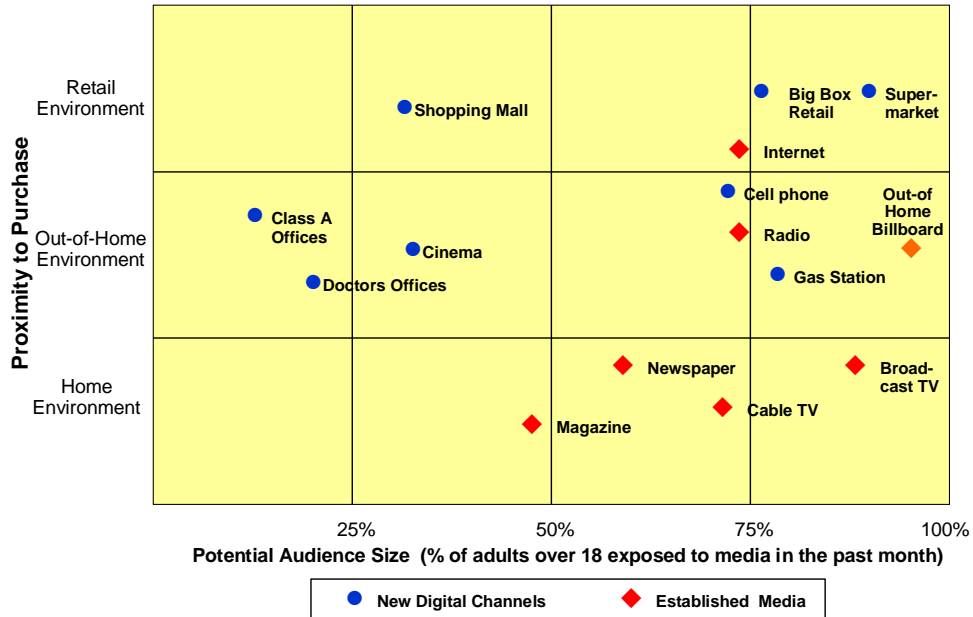
Source: The CoStar Group Inc., Profitable Channels Analysis of Retail Industry, US 2002 Economic Census, NIRB Shopping Center Census, STORES Annual Top 100 Retailer survey, Progressive Grocer Super 50 database, based on 17,600 chain stores.

Supermarket-based networks are particularly attractive for packaged goods or health-and-beauty brands because they reach audiences where the majority of purchase decisions are made – in the store. The media planners interviewed in our study reported that marketers are shifting media budgets from traditional media to “alternative” media platforms like these because they are closer to the purchase decision and purchase consideration process and can have a greater impact on sales.

Procter & Gamble calls this “the first moment of truth.” Some ad agencies call it “shopper marketing.”

These advantages give ad networks based in grocery stores the same “triple threat” advantage that search-engine marketing enjoys: a powerful combination of broad reach, greater relevance and the ability to more directly track sales response. The chart below highlights this advantage by comparing the reach of different media with their proximity to where purchase decisions are made. By this measure, supermarkets are rivaled only by other classes of retail and the internet in their ability to reach a national audience in a place where purchase decisions are actively being made.

Potential Audience Size vs. Proximity to Purchase of Different Media Alternatives



Source: Profitable Channels analysis of the out-of-home digital advertising industry, multiple sources (see About this Research)

The leading national ad networks can deliver this national audience to advertisers.

National advertisers can reach this audience today by working with a handful of professionally managed national ad networks now installed and operating in over 3,500 stores.

The Leading Digital Advertising Networks Based In Grocery Stores	
Premier Retail Networks www.prn.com	A national digital advertising network placed in retail venues, including Wal-Mart, ShopRite, Albertsons, Pathmark, Jewel, Shaws, and Acme
SignStorey www.signstorey.com	A national digital advertising network placed in supermarkets, including Pathmark, Albertsons, Shaws, Price Chopper, Acme, and Jewel
In-Store Broadcasting Network www.ibnads.com	A national out-of-home media network placed in supermarkets, offering audio advertising in many chains, and launching video ads in Kroger
Captive Audience www.get-ca.com	A full service in store-media network, supports in store ad program in deli at ShopRite, and rolling out in Big Y and Foodtown
Newsight Media Solutions www.newsight.com	An in-store "narrowcasting" network provider that has developed an ad network in Meijer supermarkets

The best of these networks can deliver marketers all of the critical things they need to effectively leverage this new media - national network operations, quality custom programming, national ad sales, and performance measurement.

- Two networks - Premier Retail Networks (PRN) and SignStorey have national network operations and manage large scale video advertising networks of over 1,000 stores each.
- The major players have acquired quality custom programming from leading content providers such as CBS, Disney, ESPN, HGTV, Meredith, NBC - Universal, ABC and brand named talent from the William Morris Agency. More significantly, over time the most mature of these organizations have gained valuable experience in content management at the store level, which they pass along to their clients.
- All have national sales organizations to make it easy for marketers to plan and buy grocery stores just like any other ad media. For example, PRN holds annual "upfront" for Wal-Mart TV - the largest retail ad network.
- National ad network operators have the resources and technology to deliver three important measurements to help their advertisers measure and manage this media - audience delivery, compliance and advertising impact on sales. The better digital networks have largely automated the proof-of-placement process, mitigating the need for expensive field audits to ensure compliance and field execution.

Advertising in the grocery channel is smart, safe and profitable for consumer brands.

Any packaged goods or health-and-beauty brand should consider digital networks based in supermarkets as a primary national media option. These marketers will get the highest immediate return from media investments in supermarket-based digital ad networks for several reasons:

- The media is highly relevant to their selling approach;
- The media is currently under priced relative to the value it delivers;
- Brand advertisements in the store generate more measurable sales impact for the media dollar;
- Many networks offer the ability to block competitors from using these networks through category exclusivity or "share of screen";
- In store advertising networks are an alternative way to reach a national audience that can offset the decline and fragmentation of traditional broadcast media.

More information on how to plan, buy, advertise on and measure out-of-home digital ad networks is available in our research report on the topic titled: *Adding Out-of-Home Digital Advertising Networks to the Marketing and Media Mix* at www.profitablechannels.com

APPENDIX: Digital Ad Network Penetration in the Top 50 Grocery Chains

Rank	Chain	Total Stores	Networked Stores (2006)	Status
1	Walmart (supermarkets)	1,544	1,544	Installed
2	Kroger	2,500	10	Rollout
3	Albertsons (Acme, Jewel, Shaw's)	1,800	1,050	Installed
4	Safeway	1,500	-	Strategy
5	Ahold (Stop & Shop, Giant of Landover)	840	-	Strategy
6	Publix	850	0	
7	Delhalze (Food Lion, Hannaford Bros.)	1,345	0	
8	Winn Dixie	525	0	
9	H.E. Butt Grocery	350	-	Strategy
10	Super Valu (Albertsons)	1,548	250	Rollout
11	A&P	400	-	Strategy
12	Meijer	163	4	Rollout
13	Bi-Lo/Bruno	174	5	Pilot
14	Pathmark	143	143	Installed
15	Hy-Vee	221	-	Strategy
16	Giant Eagle	138	0	
17	Raleys	136	0	
18	Roundy's	126	0	
19	Wegmans	86	-	Strategy
20	Whole Foods	163	-	Strategy
21	Stater Brothers	160	0	
22	Target (supermarkets)	124	124	Rollout
23	Harris Teeter	138	0	
24	Save Mart	118	10	Rollout
25	Price Chopper	106	106	Installed
26	Schnuck Markets	101	0	
27	Weis Markets	192	-	Strategy
28	Ingles Markets	197	1	Rollout
29	Brookshire Grocery	154	1	Rollout
30	Dmoulas/Market Basket	58	0	
31	Wild Oats	110	0	
32	Trader Joe's	216	0	
33	Basha's	143	-	Strategy
34	Foodtown	58	58	Rollout
35	Marsh Supermarkets	151	5	Pilot
36	Wakefern (Shop Rite)	200	200	Installed
37	Winco Food	114	0	
38	Kmart	59	-	Strategy
39	K-VA-T Food Stores	42	-	Strategy
40	Nash Finch	107	0	
41	Alex Lee	87	0	
42	Big Y Foods	50	5	Rollout
43	Fiesta Markets	110	0	
44	D'Agostino	25	0	
45	Minyard Food Stores	72	-	Strategy
46	Foodarama	22	0	
47	King Kullen Grocery	49	0	
48	Dierbergs	21	21	Installed
49	Kings	25	0	
50	Ukrops	30	1	Pilot

Source: Profitable Channels retail industry analysis, STORES annual top 100 retailer survey, Progressive Grocer Super 50 database.

ABOUT THE AUTHOR

Stephen Diorio

Stephen Diorio is a Partner in Profitable Channels and an established authority in sales and marketing strategy. He has helped over 100 leading organizations—including Gillette, Staples, Merrill Lynch, SunTrust Bank, Intuit, UPS, American Express, and IBM—develop growth strategies that take advantage of innovative channels and technologies to grow more efficiently. He is the author of several highly regarded publications on channel strategy and sales-and-marketing best practices including: *Beyond e: The 12 Ways Technology Will Transform Sales & Marketing Strategy* (McGraw-Hill 2002). He also is a prominent speaker on sales-and-marketing strategy at leading public and private venues. His organization has conducted in-house executive marketing strategy workshops and education programs for thousands of line-marketing managers at leading organizations, including Vivendi, American Express, IPG, Chrysler, Yahoo, Ford, Gillette, General Mills, Bank of America, UPS, 3M, Staples, IBM and GE.

Prior to forming Profitable Channels, Mr. Diorio was a Venture Partner at Trident Capital, a private equity firm that specializes in advanced marketing services and solutions. He was also a founder of MarketBridge, a go-to-market strategy firm that helped marketing leaders use innovative channel strategies to grow their businesses, and managed Strategic Planning at Citicorp POS systems and GE Sales & Marketing. Mr. Diorio is an adjunct professor of Marketing at George Washington University. He holds an MBA in Marketing from the University of Chicago and a BS in Engineering from Bucknell University.

Profitable Channels

Profitable Channels (www.profitablechannels.com) is a marketing services company focused on helping Global 2000 marketers better reach their markets and grow faster at lower costs. We help our clients apply leading-edge marketing practices by executing highly profitable differentiated sales, marketing and promotional programs that:

- Integrate marketing with field sales and other customer touch points
- Reach the right person at the right place at the right time
- Leverage best practices and new technologies
- Directly impact sales and generate measurable growth

To learn more about this report or our services, please contact us at 203-227-6020.

ABOUT THE RESEARCH

In the fall of 2006, Profitable Channels surveyed executives with direct experience advertising in supermarket and retail channels including WPP The Store, Dunn Humby, and Saatchi X, as well as executives from the out-of-home networks based in grocery stores, including but not limited to Premier Retail Networks (PRN), In Store Broadcasting Networks, and SignStorey:

The findings in this paper are supported by an analysis of research on customer behavior and response to these media undertaken by a variety of agencies, networks associations and syndicated research houses including focus groups, sales-impact analysis and customer surveys and traffic audits conducted. Nielsen New Media Research, The PRISM Project, Guideline New York, MASI International, and SignStorey provided original research and resources to help conduct this analysis. The research studies and secondary research sources used to develop this analysis are referenced in their exhibits within the report and listed comprehensively below.

1. *Nielsen New Media Services Traffic and Viewership Study, May 2006*
2. *Guideline New York Advertising Awareness and Recall Study, November 2005*
3. *MASI International Single source effectiveness studies of 50 brands in supermarkets, 2050 - 2006, measuring sales impact of in store advertising statistics.*
4. *Arbitron Retail Media Study - Volume II, Consumer Interest and Acceptance of Video Displays in Retail Environments, 2004, customer viewership and acceptance and attitudes about in-store media.*
5. *TNS Research survey of 5.630 Wal-Mart Shoppers November, 2005.*
6. *The P.R.I.S.M. Project (Pioneering Research for an In-Store Metric), an analysis of in store traffic and audience conducted in ten stores in May 2006 by a research consortium made up of major marketers and retailers (including P&G, Coca Cola, Walt Disney, 3M, Kellogg's, Miller Brewing, Wal-Mart, Kroger, Albertsons and Walgreens)and coordinated by the In-Store Marketing Institute.*
7. *Top 100 Retailers, STORES Annual Top 100 Retailer survey, 2005*
8. *Top 50 Supermarkets, Progressive Grocer Super 50 database of the top 50 grocery retailers, 2005*
9. *Food Marketing Institute Study, survey of US grocery shopping audience, habits, attitudes and composition.*
10. *Food Marketing Institute, US Grocery Shopper Trends 2005, supermarket traffic, consumer attitudes and audience composition statistics.*
11. *POPAl, P-O-P Measures Up: Learning's from the supermarket class of trade, 2001*
12. *POPAl (The Platt Retail Institute), Establishing Retail Digital Signage as a new media and measuring its Effectiveness, 2005, sales impact of in store advertising research.*
13. *Nielsen TD Links market share database, 2006; grocery chain market share of top 25 DMA's*

This report is a product of an objective analysis by Profitable Channels of the industry and does not directly reflect the opinions of any of these organizations interviewed during or supporting this analysis.