CIBC RETAIL ROUNDUP

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FLYER WATCH: Numerator Delivers Bottom Line On Walmart's Ad Match

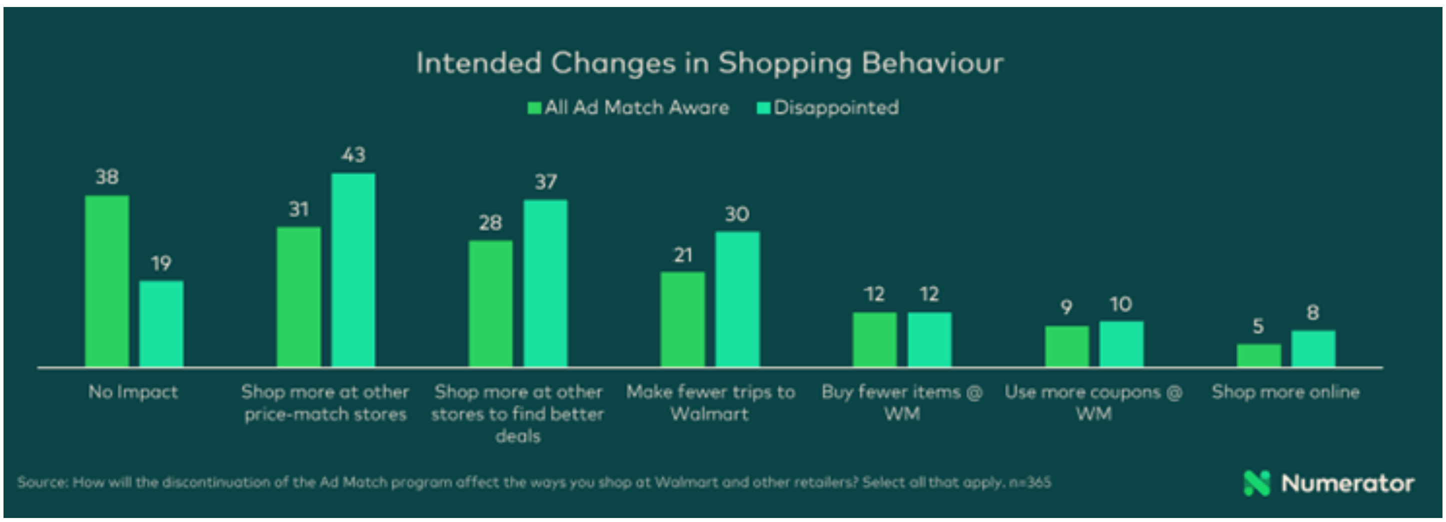
Numerator is a market insights company that studies consumer behaviour22 along the entire path from awareness to intent to purchase. Notably, it tracks all retail channels (including online), and updates data daily, so it is well-positioned to provide valuable data to all stakeholders in the retail landscape. Though most of its business is in the US, it has a growing presence in Canada.

The company recently published some research on the impact of Walmart Canada cancelling its ad match program back in the fall. Flyer Watch was on hiatus when that news broke, but we found it to be a somewhat surprising move given how universal the policy is in the discount channel, but in keeping with Walmart's multi-year push to more of an EDLP value proposition.

With its unique structure and comprehensive connection to Canadian households, Numerator was able to not just learn how consumers reacted to the end of the Ad Match program, but also how their actual behaviour lined up with their reactions. The findings were very interesting to us, so we thought it was worth highlighting.

First, customer awareness of Ad Match was significantly below that of Walmart's other discount tools, Rollbacks and Everyday Low Price, and only 45% of shoppers were aware of the program. Less surprisingly, of those that did know about, three in four were dedicated users. But even still, because of the limited awareness, hardcore users (at least once a month) of Ad Match only amounted to 12% of total Walmart shoppers.

It is not shocking to learn that of the users of the program, nearly 2/3 said that they were very or extremely disappointed, and 62% said they would change the way they shopped at Walmart. Of the most disappointed, 81% said they would shop differently, with the most common responses being shopping more at other stores with price match or with better deals.



But saying is one thing, doing is another. And what we all want to know is what did they actually do?

First, among the disappointed shoppers, the buy rate, or total consumer spend, on fast moving consumer goods (FMCG) fell by 18%. For comparison, the buy rate at all outlets was up 10%. So disappointed shoppers definitely followed through by reducing spending at Walmart.

Not surprisingly in a COVID world this primarily showed up in reduced trips, which were down 24%.

You might say of course trips are down, trips are down for everyone! Well, Numerator was able to show that trips to - and total spend at - Walmart fell disproportionately more than at other retailers.

Interestingly, while discount grocers benefitted, they were down the list. Other discount grocers saw share of trips flat but share of wallet up 5%. Conventional grocers picked up about 5% more share of trips and 7% share of wallet. But it was the club channel that performed best, seeing its share of wallet rise by 38% and share of trips rise by 23%. (The dollar channel also did well [15% increase in share of wallet, 22% increase in share of trips], but was a small fraction of the total dollars spent, so the net impact was minimal.)

The cancellation of Ad Match at Walmart clearly hurt their top line and cost them some otherwise loyal shoppers. However, what is not captured in this analysis is the profitability of these consumers, which one could certainly question given their propensity to shop deals and not just at their local store. And if Walmart uses the savings from the program to invest further in its EDLP positioning, perhaps it can result in a stronger, more profitable platform over time.

Breakfast Sandwich Battle Royale: A&W vs. McDonalds vs. The NEW Tim Hortons

Just last week, Tim Hortons launched its new campaign for freshly cracked Canadian eggs in its breakfast sandwiches. It’s a massive step forward for a brand that in the minds of some Canadians, has fallen a touch behind peers on food quality.

Breakfast sandwiches are a big deal to Tims. Not only are they featured all day, but they probably make up a substantial chunk of total sales, as much as mid-teens by our guess.

So, in keeping with our history of breakfast sandwich battle royales (previous versions available upon request), we decided this week to treat ourselves to an indulgent morning meal featuring the now-three providers of freshly cracked eggs in breakfast sandwiches (sorry, Starbucks). A&W, McDonald's and Tim Hortons faced off with a blind taste test. Perhaps it's sad, but it should hopefully surprise no one that *Roundup* correctly identified all three with exactly zero hesitation.

Since its brand transformation about seven years ago, A&W has provided formidable competition across all dayparts and breakfast is certainly no exception. "Pork raised without the use of antibiotics, and eggs from hens fed a vegetarian diet without animal byproducts": the description may not exactly roll off the tongue, but many consumers nowadays will appreciate these efforts. Plus A&W uses real cheddar, unprocessed cheese. A&W's quality is tough to beat, and this test was no exception. It's just the right blend of greasiness to pair with a morning Joe.

It’s hard to ever go wrong with a classic Egg McMuffin, which arguably started the breakfast sandwich trend. McD’s presents a solid, if unspectacular showing with this item. Truth be told, lately our MCD order has been their Chicken McMuffin (add egg, lettuce, tomato), which is delicious. The classic McMuffin will always stand up fairly well to competitors, although we find there’s a bit too much bun with these. The egg cooking time can be tough to get right, and is occasionally inconsistent in our view, but when it’s done properly, with the yolk still in gel form, it’s tough to beat. The packaging could probably use an upgrade, but there’s a reason no one ever turns down McDonald’s breakfast, which makes up over a quarter of the company’s sales. And in our history, McDonald’s speed and order accuracy tend to exceed peers, two important factors.

Tims deserves significant credit for the improvements it has made to its breakfast sandwich offering. The freshly cracked egg is an obvious, if long overdue, improvement, but the biggest surprise for us was the English muffin, which we thought was the best of the bunch. It’s still ever-so-slightly undertoasted, but the sandwich felt less “bunny” than the other two.

We prefer our bacon a touch crispier, but the Tims sandwich seemed to exceed its peers on bacon quantity. This product was great, and we expect it'll be a hit with Canadians.

Verdict: It's hard to pick a clear champion of the bunch. If it was healthy to do so, we'd start every day with one of these, and are somewhat agnostic as to the choice. The higher quality ingredients for A&W will usually have us lean that way, but that's not the only factor here.

When ordering these items (MCD and A&W from Uber Eats, Tims through its own app, which is fulfilled by DoorDash), A&W took the longest to arrive. It was also the most wasteful in terms of items added to our order (cream, milk, sugar, stir sticks, etc.) that we didn't ask for. This topic is becoming more prevalent, as the added waste is frustrating, while it also hurts store margins, even if only slightly. MCD, on the other hand, arrived at our doorstep in 12 minutes. Also, MCD and Tims offer specialty coffees and baked goods, a clear advantage in pairing a breakfast sandwich.

Our verdict is that the **real winner is consumers**, who have never been blessed with so many quality options, without even getting off their couch.

The Seamless Payment Experience: Buy Now Pay Later Expands Into Physical Retail

NEWS: Buy now pay later (BNPL) services – offering consumers the ability to pay for purchases in interest-free installments – have grown in popularity in recent years as retailers attempt to reach both younger and debit-card consumers. Traditionally an online only offer, the pandemic has resulted in as much as 200% growth in these services in the U.S. as online shopping exploded. Interestingly, many of these services are now expanding into brick and mortar stores to develop an omni-channel payment experience.

WHAT IT MEANS: BNPL has exploded in the last year but we took note of the news that players are expanding their services into brick-and-mortar stores by forging partnerships with both retailers and mall operators. For example, Afterpay partnered with Simon Properties Group in October 2020 to allow Afterpay to be used at any Simon mall. Affirm runs in-store marketing campaigns via signage and display screens with its partners including Target, Walmart, and Dick's Sporting Goods.

Retailers capture multiple benefits from offering BNPL services, as they tend to see an increase in average order values. And a survey of 6,500 adults found that installment payments would allow 48% of them to spend between 10% to 20% more during the holidays. Retailers also see BNPL partners as a customer acquisition tool as the most devoted users actually shop within each platform's ecosystem. Expansion into physical stores, however, takes this another step: it's also about informing consumers that anywhere they shop, whether online or in-store, they can pay using BNPL services, creating a seamless payment experience.

On the flip side, however, financial experts criticize these services as having a potential negative impact on consumer credit scores. They note that almost 40% of BNPL users missed one payment last year, resulting in a 72% decline in the users credit score. Similar to credit, BNPL is a tool and when used responsibility, it can benefit both consumers and businesses.

Source: Modern Retail, Washington Post, Women’s Wear Daily