

the future for the food store *challenges and alternatives*



This study outlines a multi-faceted future. The next 10 years will start to witness change not only to the nature of food shopping as we know it today, but change to the very system of food retailing itself



Project VI May 1996

THE FUTURE FOR THE FOODSTORE – CHALLENGES AND ALTERNATIVES

PROJECT VI
May 1996

A study conducted for
THE COCA-COLA RETAILING RESEARCH GROUP – EUROPE
by Coopers & Lybrand



INTRODUCTION

The Coca-Cola Retailing Research Group, Europe (CCRRG,E) comprises leading European grocery retailers. It is sponsored by the Coca-Cola Company to conduct research into key topics in grocery retailing.

This report represents the findings of a study commissioned by the CCRRG,E to analyse and forecast the threats and opportunities facing foodstores in the next ten years, and to suggest ways in which foodstore operators can respond.

The project was carried out by Coopers & Lybrand in 1995/6.

The previous reports of the group are:

- I Staffing Supermarkets in the 1990's;
- II Food Retailing in Europe post 1992;
- III Grocery Distribution in the 90's –
Strategies for Fast Flow Replenishment;
- IV Building Customer Loyalty in Grocery Retailing;
- V Supplier-Retailer Collaboration in Supply Chain Management.

Copies of these studies are available from:

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2. EXECUTIVE SUMMARY

3. THE DRIVING FORCES

4. NEW MODES – MYTH AND REALITY

5. THE COMPETITIVE AGENDA FOR 2005

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ABOUT THE STUDY



About the study



CHAPTER 1: ABOUT THE STUDY

"It is always wise to look ahead but difficult to look further than you can see" Winston Churchill

This study examines the 'future for the foodstore'

The Coca-Cola Retailing Research Group, Europe selected this topic as the threats and opportunities facing foodstores in meeting consumer needs are likely to be as great in the next ten years as at any time since the rapid development of self service supermarkets in the 1950s and 1960s.

In particular, the concept of the foodstore as a place where people visit is being questioned, coincidental with increasing recognition that much food shopping today is perceived as a chore. Therefore the race is on to offer the consumer better choices about how to access food.

The terms of reference for the study were therefore expressed as two questions:

- how will consumers access food in 2005?
- what do today's foodstore operators need to do to meet consumer needs?

Behind these two questions lie other fundamental questions, for example:

- what new forms of food shopping will consumers respond to, over what timescale?
- what new consumer benefits and values must be developed by foodstores?
- does the foodstore's relationship with the consumer need to be reconfigured?
- what will be the role of the foodstore in 2005?
- what are the new rules and horizons of competition?
- what will constitute excellence in foodstore operation by 2005?

The 2005 timeframe is not rigid. It is an approximate reference point, long enough to evidence significant change but close enough to be within the planning horizon of foodstores in 1996.

The scope and nature of the study are further defined by the following boundaries and beliefs:

- *the consumer is key.* We take the simple view that, (a) the winning foodstores will be those that get closest to what consumers really value; that, (b) to the extent that food shopping is a chore, the opportunity exists to provide a better offer, and; that (c) to the extent that their options will increase, consumers will be brutal in exercising that choice;
- *the study is pan European,* but is not 10 – 12 different studies covering each European economy in detail. The concentration is on the leading edge of change, wherever that is, identifying important national divergences and drawing on global examples where relevant;
- *the focus of the study is on what lies 'beyond efficiency'.* Foodstores across Europe have different starting points and a primary goal for many is to attain established European best practice in operations and customer service etc. The study does not address this type of productivity challenge, important as it is. The focus is on what needs to be done to make a sustainable real difference for the consumer, beyond efficiency;
- *a single 'official future' is not presumed.* There is irreducible uncertainty about how some forces driving the future of the foodstore will develop. Furthermore, competitively, there are many ways for players to shape their own destinies and environments. The aim of the study is to examine as much of the future environment as is sensibly 'analysable' and to put forward sets of issues, agendas and possibilities for foodstores to interpret, or creatively misinterpret, as they want;

- *the study is not about the future of specific foodstore companies.* The study looks at the prospects for various formats, but not at implications for individual store groups;
- *'food' is shorthand for food and other categories.* Foodstores sell much more than food. The study focuses on food but in essence covers all categories that consumers see as complimentary to food or foodstores, now or in the future.

The consumer orientation of the study means that certain key industry issues are not covered in depth, e.g.:

- internationalisation through acquisitions and alliances etc.;
- supply chain and operational effectiveness;
- organisational and human resources development.

The work has drawn upon a wide range of inputs through discussions and interviews (see Appendix B).

The rest of the report is structured as follows:

Chapter 2: **Executive summary.**

Chapter 3: **The driving forces** – which describes the eight key forces that we identify as the key drivers of the future of the foodstore.

Chapter 4: **New modes – myth and reality** – which evaluates the forces supporting and blocking the development of new forms of food shopping.

Chapter 5: **The competitive agenda for 2005** – which sets out the main battleground areas for foodstores to get closer to the customer in the next ten years.

Chapter 6: **Format prospects** – which assesses the implications of the above for different foodstore types.

Chapter 7: **End note.**

How to use this report

This report has two main uses:

- as a source book for senior management when looking at future strategy. While the report identifies specific conclusions it is imperative for individual foodstores to draw out the messages and ideas that are most relevant and useful in their own context;
- as a means of communicating throughout the organisation the challenges, complexities and opportunities that foodstores face in the future. This might be part of a wider change or corporate transformation programme.

The future of the foodstore is multi-faceted and cannot be adequately covered by a short document. However, to help the reader with limited time the report can be read at “two-speeds”.

Speed 1: An overview can be obtained by reading Chapter 2 plus the one pages synopses which precede Chapters 3, 4, 5 and 6. These have been colour coded in pink.

Speed 2: Those wishing to access the detail can read the full report.

EXECUTIVE SUMMARY



2

- 2.0 Change will be to the structure of the system, not just within the structure
- 2.1 Change is driven by many forces
- 2.2 There are fundamental strategic challenges for foodstores to master
- 2.3 The competitive importance of new modes of shopping will increase
- 2.4 Foodstores need to manage for 2005 now
- 2.5 New marketing approaches will be required to succeed
- 2.6 Formats will reflect a 'multi-channelled' world
- 2.7 In conclusion – create your own future

CHAPTER 2: EXECUTIVE SUMMARY

"If we want things to stay as they are, things will have to change"

Giuseppe di Lampedusa¹

CHAPTER SYNOPSIS

There is no single '2005 foodstore' and no single way to achieve success over the next ten years. The study outlines a multi-faceted future.

The next ten years will witness the start of change to the system of food retailing itself. This will be driven by a variety of forces including; the negatives of food shopping today, increasing internal and external competition, changing consumer preferences, socio-economic trends, and the emergence of new modes of shopping.

'New modes' incorporate a range of alternatives to conventional self service, involving the decoupling of the fulfilment side of the shopping process from the exchange of information between consumer and retailer. This 'decoupling' opens up many possibilities. By 2005 it is unlikely that new modes will account for a large percentage of the grocery market, but the competitive impact will be disproportionate as established rules of competition are challenged.

For foodstores to maintain their strength in the food market and in the consumers' mind it is clear that 'things will have to change'. There are many ways to answer the challenge. For example: creativity and uniqueness in role definition and branding, minimising the consumer negatives of and adding value to the shopping process, developing better customer relationships and optimising productivity.

2.0 CHANGE WILL BE TO THE STRUCTURE OF THE SYSTEM, NOT JUST WITHIN THE STRUCTURE

In the last ten years the grocery trade has seen major developments and changes including increased concentration, the growth of large stores, the growth of discounting, the increased use of electronic point of sale technology, internationalisation, private label development, the advent of category management, increased emphasis on customer service, the increased importance of environmental matters and the growth of fresh, chilled, health and convenience products.

While these trends are highly significant, in essence, they apply *within* a well defined, stable and successful competitive system. Competition has been relatively predictable and the industry's investment in bricks and mortar has been predicated safely on the concept of a store as a place that consumers visit en masse. Consumers have had no other real choices.

1996 – 2005 should be seen as a transition period during which the main long term commercial forces of the 21st century (which we see as 'multimedia' and 'networks') start to impose themselves, but before their full impact is evident.

The longer view of the 21st Century beyond 2005

Multimedia

The convergence of computing, communication, commerce and creativity (accelerated by falling information processing and storage costs) to open up limitless new possibilities for interaction between people and information using words, speech, pictures and video.

“The change we are about to witness will overshadow the impact of the printed word, the industrial revolution and physical transport”.

Peter Cochrane, BT²

Networks

The recognition that links between different organisations in a commercial system are vital to how the whole system works.

“Core business processes extend far beyond the boundaries of the single business ... those companies whose operating strategy is teaming with equally creative and expert technologists will win the global battles”

McHugh, Merli and Wheeler³

Long run implications

- Current partnership initiatives are just a forerunner of entirely new global ways of working and competing, across markets, across technologies and across supply chains.
- Multimedia has to be understood and addressed well before it is mainstream. It is about technology but ultimately it is about radically new ways of interfacing with customers.

2.1 CHANGE IS DRIVEN BY MANY FORCES (see Chapter 3)

Looking at 1996 – 2005, change will be driven by a combination of the following forces:

- *underlying consumer problems with the existing food shopping process.* For many European consumers, food shopping is time consuming, complex, and tedious. There is underlying demand for process improvements;
- *the emergence of realistic new modes for food shopping.* Signs are already evident of significant alternatives to conventional self-service food shopping;
- *heightened external competition for foodstores.* This comes from new sources such as logistics and electronic access companies, and from the best consumer service organisations competing for “share of customer relationships”;
- *intensification of internal competition within the existing system.* In the last ten years supply growth has outstripped demand growth. Increasingly, the stronger players will have to fight each other, rather than take business from weaker players;

- *the long term erosion of mass marketing and its replacement by mass customisation*, based on the increasing economic feasibility of dealing with large numbers of customers as individuals;
- *established and foreseeable consumer trends that will make the food retailing environment ever more challenging*. These derive from a range of consumer polarisations, accelerating social trends, and the increasing marketing literacy of consumers;
- *the possibility of more radical socio-economic fracture lines opening up*. For example, severe recession, an anti-car backlash or divisive social upheaval would present enormous challenges for food retailing;
- *the challenging regulatory and political environment*. Issues like large space development, competition policy and environmental legislation have major cost and operating implications.

2.2 THERE ARE FUNDAMENTAL STRATEGIC CHALLENGES FOR FOODSTORES TO MASTER

These include:

- *providing new and better ways for consumers to access food*. New modes of shopping may only represent a small proportion of the market by 2005, but their economic and competitive impact will be disproportionate;
- *interacting more personally with customers*, giving the consumer more relationship options and genuine reasons for long term loyalty;
- *providing new dimensions to the role of the foodstore and its added value*; establishing leadership in new areas which the consumer will value and respect;
- *redefining competition*. To generate real growth and defend existing business foodstores will need to examine and respond to issues such as eating out, alternative uses of time, and non-food goods and services;
- *defining how foodstore companies operate, and the core competencies that will be critical*. The model that the foodstore can dominate other parts of the food chain e.g. manufacturing and delivery, without forming genuine partnerships will need to be re-appraised. Foodstores will increasingly need to be part of world class (and worldwide) coalitions involving, for example, multimedia, logistics and product innovation competencies. Many of the severest challenges will be organisational as CEOs have to make often conservative, stable and highly functional companies work in new ways.

All of these challenges will be present during 1996 – 2005. However, conventional rules and systems will also still have relevance. It will therefore be a chaotic and demanding period through which to manage.

2.3 THE COMPETITIVE IMPORTANCE OF NEW MODES OF SHOPPING WILL INCREASE

What inroads can new modes of shopping make and over what timescale?

The scale and pattern of new mode development (non self service forms of foodshopping) to 2005 depends on the interplay of a complex set of supporting and blocking consumer, competitive and economic forces.

Key drivers of new modes are the multimedia revolution and consumer interest in new channels. However, there are major consumer inertias, the current technology is still relatively primitive and logistics considerations, in particular in the near future, will limit the proportion of the food market that is economic to serve in new ways.

Our view on the balance of the various factors is:

- *by 2005 probably less than 5% of the European grocery market will be channelled through new modes.* Nevertheless, this would be worth \$33 billion at 1994 prices;
- *however, new modes will be on a rising curve* which might reach 15% by 2020;
- *no single new mode is likely to dominate.* The likely outcome is a mix of services representing different degrees of departure from conventional self service;
- *by 2005 the new mode issue will take on disproportionate competitive importance:*
 - changing the dynamics of competition and the primary importance of physical location (by opening up previously well defended local catchment areas and customer groups to targeted attack);
 - opening up the industry to new competitors;
 - forcing a reappraisal of the role of the foodstore as a place to visit;
 - facilitating a wider reappraisal of how a foodstore interfaces with its customers;
 - causing more infrastructure cost and capacity to be added than it is possible to take out.

2.4 FOODSTORES NEED TO MANAGE FOR 2005 NOW

The proposed competitive agenda to 2005 has six elements:

- *uniquely define the role and branding of the foodstore:* to give it a leadership platform that is more than the sum of its parts and is uniquely differentiated.
- *offer a unique range:* to create positive pull, giving consumers a solid reason for loyalty;
- *re-engineer the food shopping process:* to eliminate or minimise the consumer negatives of the food shopping process;
- *re-conceptualise the food shopping experience:* to make visiting the foodstore a positive added value experience that differentiates the foodstore;
- *develop smarter customer relationships and communications:* to give the customer more service options and to add value for the customer through actions based on a better understanding of his/her needs and wants;

- *operate at the productivity edge*: to optimise efficiency in delivering a defined level of service / quality.

In meeting this agenda, the competencies whose importance will increase most to 2005 will be customer relationship management, customer information management, innovation, corporate brand management and partnership management.

However, it will not be enough to be good or excellent in each area. The real key will be the organisational ability to link competencies together in a unique manner.

2.5 NEW MARKETING APPROACHES WILL BE REQUIRED TO SUCCEED

In terms of marketing philosophy, the main transitions that will emerge over the next ten years are:

| FROM | TO / AS WELL |
|--|---|
| Stores and locations as greatest assets | Customers as greatest assets |
| "One to many" mass marketing | "One to one" mass customisation |
| Transactions and traffic flows | Customer lifetime value |
| SKU's and product profitability | Customer and market basket profitability |
| Offering a product range | Offering solutions and an experience |
| Single channel access | Multi channel access |
| Right product, right place, right time | Anything, anywhere, anytime |
| A monolithic customer offer | Multiple relationship options |
| Data on what is bought | Knowledge on what is bought by whom and why |
| Marketing as on "add on" department | Marketing as a core competence |
| No one in the organisation (below the CEO) who owns the customer | Customer-centric forms of organisation |
| Benchmarking | Path breaking |
| Customer loyalty schemes | Customer loyalty as the creed of the business |

These transitions are underway, but the gap between word and deed is often cavernous, providing ten years of upside opportunity for those who technically and organisationally can travel furthest along the road.

2.6 FORMATS WILL REFLECT A 'MULTI-CHANNELLED' WORLD

Looking at prospects for particular formats and the profile of the foodstore landscape:

- future format shares are not preordained. The likely customer and external forces over ten years represent a mix of threats and opportunities for all formats. Formats that compete on wider fronts such as hypermarkets and superstores generally face a broader range of threats and opportunities. Formats such as discounters have relatively more defensible positions but less upside potential;
- however, in many markets across Europe unfinished trends towards retail concentration will continue;
- success and failure will be more about the winners and losers within a format type and different retail brands competing across formats than about one format triumphing over others;
- beyond that, we envisage a 'multi-channelled' world in which no one format dominates growth and where the emphasis is on innovative new formats and channels, the enhancement of existing sites and the blurring of what is a foodstore. The term 'format' will become less useful as the imperative for differentiation results in more unique variations and hybrids;
- 'no compromise local convenience' is an increasingly important trend; Consumers will demand convenience without compromising quality, range and price, whereas historically, convenience has involved quite steep trade-offs on these dimensions;
- the advent of new modes is a vital new dynamic. It creates the opportunity for 'combination formats' making an offer competitive for a wide range of occasions.

2.7 IN CONCLUSION – CREATE YOUR OWN FUTURE

There is no single '2005 foodstore' and no 'one big solution' in terms of getting there.

For individual foodstores it will be as much about 'differentiate or die', in pursuit of a unique consumer proposition, as about 'imitate or die' in pursuit of operational best practice. This will involve continuous assessment about which waves of change and opportunities to ride; 'surfing to the future' rather than attempting to follow a spuriously precise road map.

Paradoxically, however, to be geared up to exploit the right opportunities as they occur will require genuine long term foresight and unprecedented levels of organisational responsiveness. The common thread is the capacity to learn.

"The rate at which organisations learn may become the only sustainable competitive advantage".

Ray Staton⁴

THE DRIVING FORCES



- 3.0 Overview
- 3.1 Underlying consumer problems with the existing food shopping process
- 3.2 Emergence of realistic new modes of food shopping
- 3.3 Heightened external competition for foodstores
- 3.4 Intensification of internal competition within the existing system
- 3.5 The long term erosion of mass marketing and its replacement by mass customisation
- 3.6 The certainty that established or foreseeable consumer trends will make the food retailing environment more challenging
- 3.7 The possibility of more radical socio-economic fracture lines opening up
- 3.8 The challenging regulatory and political environment
- 3.9 Collective implications of the driving forces
- 3.10 The key questions that emerge

CHAPTER 3: THE DRIVING FORCES

"In the absence of an immovable object an irresistible force wins"

Frank Milton

CHAPTER SYNOPSIS

Eight forces are identified as having most influence on the future of the foodstore:

| Driving force: | As evidenced by: |
|---|---|
| 1 Underlying consumer problems with the existing food shopping process | the perception that many food shopping trips are a chore and key parts of the process, e.g. checkouts, are frustrating and unenjoyable |
| 2 The emergence of realistic new modes of food shopping | the growth of direct to consumer services and the extensive trialling of interactive TV, etc |
| 3 Heightened external competition for foodstores | competition for 'share of stomach' from the eating out sector and the battle for 'share of consumer relationships' between leading service companies from many sectors |
| 4 Intensification of internal competition within the existing system | the faster growth rate of food retailing shop space than food consumption across Europe, putting long term competitive pressure on margins |
| 5 The long term erosion of mass marketing and its replacement by mass customisation | the increasing economic feasibility of relating to consumers on a one to one basis |
| 6 The certainty that established and foreseeable consumer trends will make the food retailing environment more challenging | a mass of social polarisations, such as the ageing population and the divisions between haves and have-nots on various dimensions |
| 7 The possibility of more radical socio-economic fracture lines opening up | various 'what could go wrong' scenarios such as extreme consumer militancy and environmental disaster |
| 8 The challenging regulatory and political environment | legislative moves in areas such as planning, packaging and waste, transport, employment and opening hours which will often add significant cost to a foodstore's operations |

The key implications of these forces include:

- Customer loyalty cannot be relied upon given widespread dissatisfaction with many aspects of food shopping.
- The factors which made foodstores strong in the past will not be enough in future.
- Margin pressure will be unrelenting.
- Successful foodstores will have to find new and innovative ways to work 'to the customer's agenda'.
- It will get harder to sustain a broadly based mass consumer appeal.
- The juxtaposition of new modes will challenge foodstores to redefine their added value and 'right to exist'.
- It will be a chaotic period to steer through – in many ways a transition period between old and new realities.
- Foodstores cannot just focus on the store based aspects of the food shopping process.

3.0 OVERVIEW

The key drivers of the future of the foodstore to 2005 are:

- 3.1 Underlying consumer problems with the existing food shopping process.
- 3.2 The emergence of realistic new modes of food shopping.
- 3.3 Heightened external competition for foodstores.
- 3.4 Intensification of internal competition within the existing system.
- 3.5 The long term erosion of mass marketing and its replacement by mass customisation.
- 3.6 The certainty that established or foreseeable consumer trends will make the food retailing environment more challenging.
- 3.7 The possibility of more radical socio-economic fracture lines opening up.
- 3.8 The challenging regulatory and political environment.

This chapter examines each driver and summarises their collective implications.

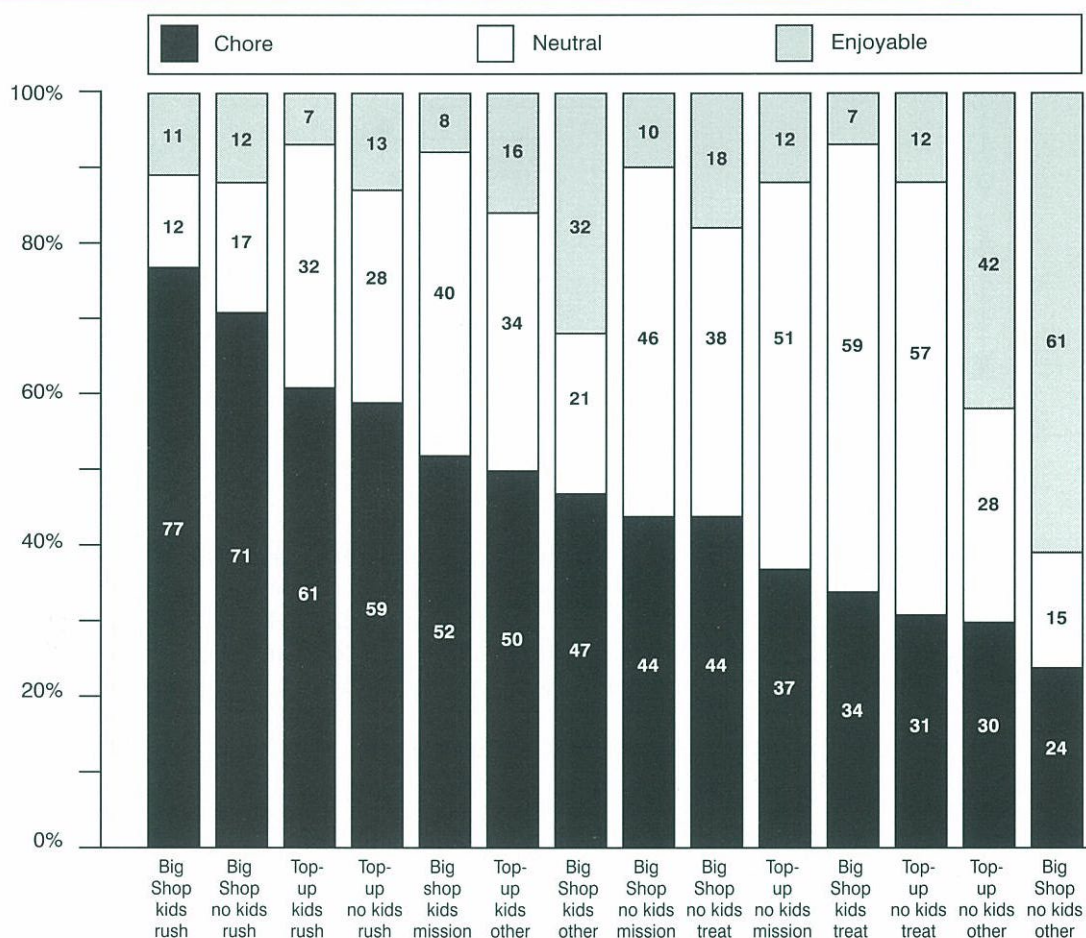
3.1 UNDERLYING CONSUMER PROBLEMS WITH THE EXISTING FOOD SHOPPING PROCESS

In the next ten years foodstores will have to tackle the 'paradox of customer satisfaction'; the situation whereby, in general, consumers are happy with where they shop at the same time as exhibiting significant underlying dislike of food shopping as a process (with the arguable exception of some countries such as Italy).

In this respect:

- in FMI research¹, European customers gave a 7.7 rating out of 10 to their primary food store and were generally appreciative of the improvements made in recent years on range and service etc. But on the other hand;
- The Henley Centre² chart below for the UK shows much food shopping to be perceived as a chore with large variations depending on the type of shopping trip, and whether children are present.

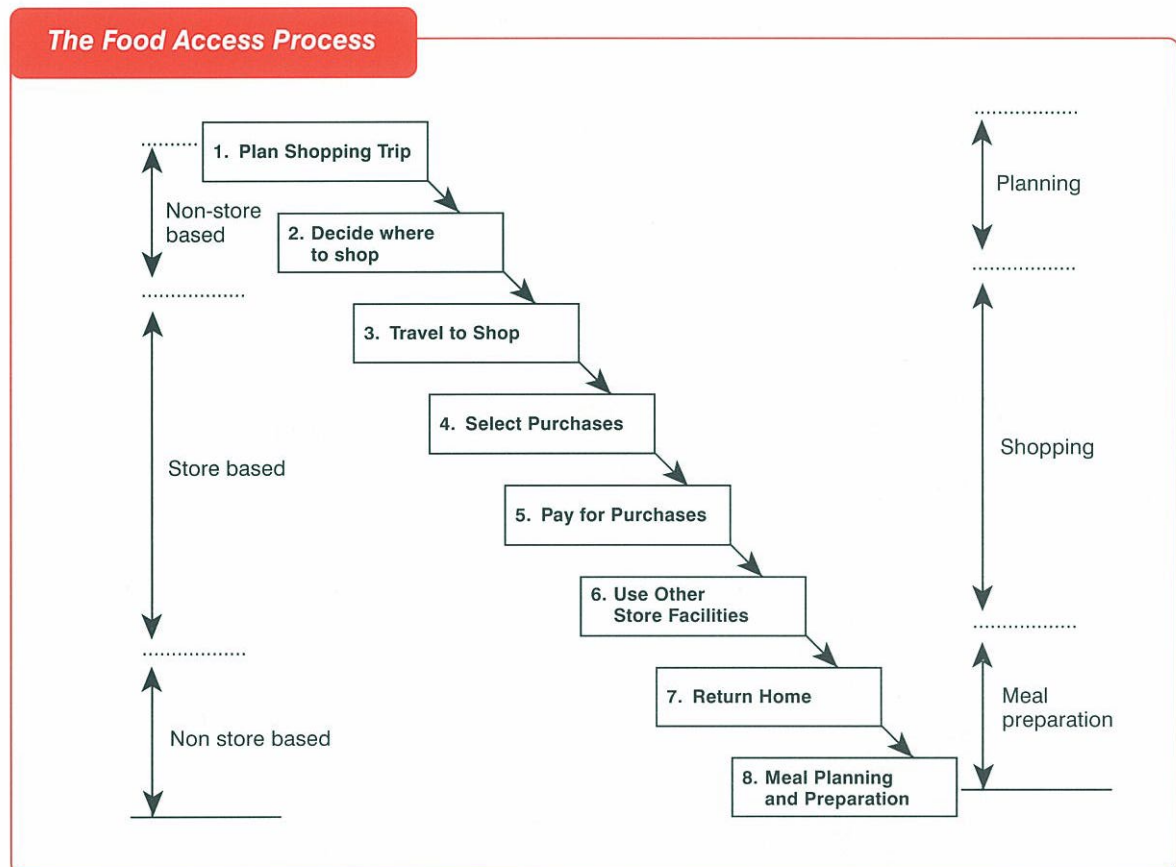
Grocery Shopping Segmentation – Enjoyment of Last Visit by Modal Group



Source: *The Henley Centre, Planning for Social Change 1994 / 95*

The customer satisfaction paradox has critical implications:

- *foodstores cannot just focus on the store based aspects of the food shopping process.* Long term success depends on making the whole process, from conception of a need through to ultimate consumption, as easy and satisfying for the customer as possible;



- *foodstores need to “get under the skin” of the complexity of consumer behaviour.* The Henley Centre chart above illustrates that conventional segmentation is insufficient. It is not as simple as saying segments A and B or individuals X and Y dislike food shopping. As The Henley Centre observe the same person on two different occasions can be more different than two people on the same occasion. Food shopping behaviour is very ‘occasion specific’.

“The consumer no longer exists. There are only multi-dimensional individuals, whose attributes and behaviour vary according to circumstances”.

Francoscope Magazine

Taking these implications forward, there are two levels of challenge in improving the food access process. Chapters 4 and 5 cover both these types of challenge:

- *investigate potential breakthroughs* that could arise from significant reinventions of the food shopping process, e.g. eliminating the need to visit the foodstore at all;
- *sort out the important small things* or irritants that are vital to continually work on, e.g. checkout queues. Appendix D looks at potential consumer problems at each stage of the food access process shown above. The hit list of negatives that this Appendix highlights include:

- congestion hotspots;
- range changes;
- getting service;
- checkout process;
- product search difficulties;
- store navigation;
- crowding / inconvenient hours;
- car parking and arrival;
- cart suitability.

3.2 EMERGENCE OF REALISTIC NEW MODES OF FOOD SHOPPING

The self service foodstore has dominated food shopping for 20 – 30 years.

However the seeds are now evident of significant alternatives, e.g:

- surrogate on-line shopper services such as Peapod in the USA;
- direct to home services for particular categories, e.g. wine and flowers.

The main facilitating factors are the multimedia and communications revolution, improvements in logistics and the pathways being forged in other sectors.

'New modes' are fundamental to the future of the foodstore and are looked at in depth in Chapter 4.

3.3 HEIGHTENED EXTERNAL COMPETITION FOR FOODSTORES

No foodstore can any longer define its competition just as other foodstores. Focusing on other foodstores is important but ultimately leads to an ever harder internecine fight for points of market share. For offensive and defensive reasons, foodstores must actively work to a broader concept of competition encompassing:

3.3.1 New competitors

3.3.2 A total definition of 'food' and more non-food categories

3.3.3 Pre-eminence in the consumer's mind.

"the future will be invisible to any firm that can't escape the myopia of its currently served market"
Hamel and Prahalad³

3.3.1 New competitors

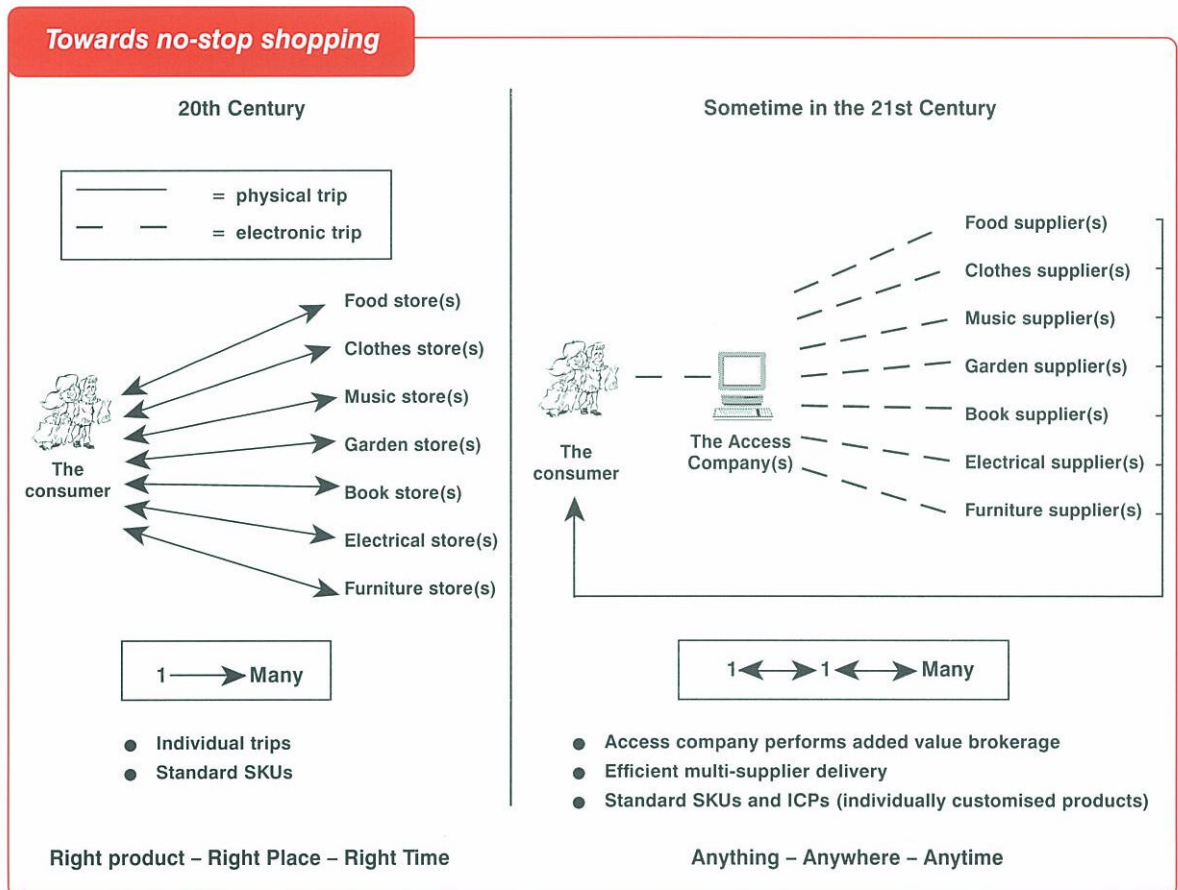
In addition to domestic and international food retailers, direct competition will increase from:

- *logistics and delivery companies* seeking to be part of new supply chains direct to the consumer. Logistics companies have a long term opportunity to take a larger part of the industry's added value. It is less obvious that in their own right they can become consumer food companies as they lack crucial capabilities in purchasing, category management and branding;

- *lifestyle brand companies or properties* e.g. Benetton, Paul Newman, Disney and The Body Shop looking to build positions as leading consumer service brands that could embrace either niche or mainstream food retail offers. It is not over fanciful to think that within ten years a strongly branded service company could have had a major impact in this way, perhaps through the take-over of a poorly branded foodstore operation or through an imaginative alliance;

In addition the way is open to create service brand companies which do something new and different. For example, Peapod in the USA has created a direct to home food shopping service in between the conventional store and the consumer. The seeds of a powerful brand have been planted in the minds of consumers and the media. There is no serious reason why Peapod cannot develop across the world and across other categories and services.

- *non food retailers*, for example petrol retailers and pharmacy chains, supporting their natural franchises with food sales. The cumulation of these attacks is significant but the foodstore will often be better positioned to do the attacking. The complexity and scale economies of the food supply chain are genuine barriers to entry;
- *electronic access companies* looking to own the home shopping link to the customer and the home shopping transaction. This is a serious long term threat, although electronic access companies will need food retailer and food manufacturer partners to provide a mainstream competitive service. Electronic access companies could ultimately provide consumers with access to many suppliers and retailers and provide efficient direct delivery spanning all these sources. In this 21st century scenario much of the power shifts to this new intermediary, especially if the intermediary acts as an 'intelligent agent' finding the best or cheapest solution to a consumer need from across a wide range of suppliers and succeeds in strongly branding this sourcing role;



Examples of companies with stated interests in electronic access include: Compuserve, IBM-Lotus, Microsoft, AT&T and other telecoms companies, News Corp and other media operators, Sony and other electronics companies and cable operators etc;

- *manufacturers* looking to bypass the foodstore in getting products to consumers and to establish one-to-one consumer relationships, either through partnerships with electronic access and logistics companies or alone. It is easy to construct scenarios whereby leading manufacturers in major volume categories could negotiate long term bulk supply and delivery agreements direct with consumers, (e.g., for an annual supply of diapers or mineral water). This practice could then develop into networks of non competing manufacturers or brand owners co-operating to do likewise.

However, there are barriers to this becoming a major feature of the market by 2005:

- manufacturers will be mindful of damaging their core food store partnerships while these relationships are still critical in profit terms
- there are relatively few food categories where the consumer will find it convenient to enter into a manufacturer direct relationship. The consolidator role currently performed by foodstores (bringing together the products of thousands of manufacturers) is of great consumer value, whoever performs it.

Other, often stealthy routes, that manufacturers will increasingly explore to bypass conventional channels include; vending machines, own shops, consumer clubs, agents and off-the-page offers.

- *network marketing organisations* bypassing stores, particularly in non food categories. However we do not envisage network marketers having a major impact as ultimately the supporting logistics systems are less efficient in network marketing than in the well run food store.

Implicit in the above is that much new competition will be based on alliances and networks of different capabilities and competencies coming together. For example involving electronic access, logistics and foodstore companies. Before, the customer would have dealt just with the foodstore.

The challenges for the foodstore are:

- to participate in winning alliances;
- to have sufficient power to be a critical hub in the network. For foodstores, the key sources of power in this context will be company reputation, offer uniqueness, consumer relationships and efficient systems.

3.3.2 A total definition of food and more non food categories

To grow, foodstores must actively target a larger share of the total food market including eating out and catering.

"The whole food spectrum is our competitive environment"

J Oscar van den Ende, Ahold

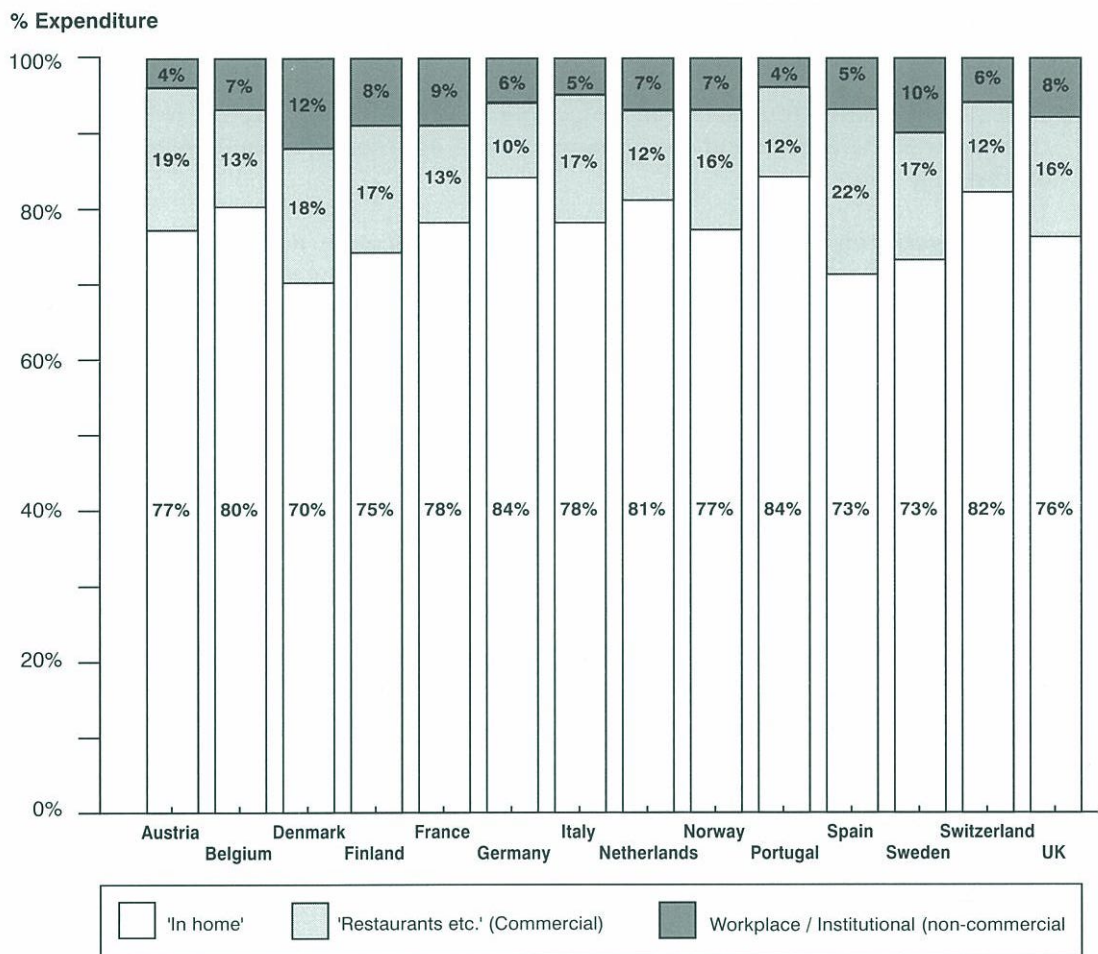
Furthermore, the market research definition of retail food lags behind the consumer reality.

"Much eating-in is virtual eating-out and much eating-out is virtual eating-in."

Villy Rasmussen, FDB

Foodstores have in some markets a relatively low and decreasing share of total food spend or 'share of stomach'.

Total food expenditure split by 'in home' and 'out of home' consumption 1991⁴



Source: GIRA

In the USA, the proportion of food dollars spent outside the home increased from 36% in 1980 to 44% in 1995⁵, a loss of share worth around \$57bn. Most market share data and foodstore planning focuses on other foodstores and food consumed at home, ignoring the near crisis level loss of market share in total food.

The increased share of eating out is driven by:

- consumer dislike of cooking and meal preparation at home;
- social norms whereby casual dining in restaurants is a frequent rather than occasional activity;
- rapid growth of 'fit for purpose' good value eating out and take away outlets which offer a social or leisure benefit as well.

Ways for foodstores to fight back include:

- designing ranges and services that are convenient and good value substitutes for eating out and actively marketing these concepts, e.g.;
 - ready or fast meals
 - meal at home merchandising with fresh and added value items
 - more hot food as part of the offer, e.g. rotisserie chicken
 - changing the merchandise selection for different parts of the day e.g. more sandwiches at lunchtimes
- more competitive and enjoyable eating facilities as part of the store complex or on standalone sites, perhaps in alliance with 'eating-out' companies;
- branding and marketing campaigns that position the foodstore as a total food solutions company;
- marketing and loyalty programmes aimed at local businesses;
- using the foodstore brand in the catering market either through large pack sizes in existing stores, direct delivery services or even cash and carry operations.

3.3.3 Pre-eminence in the consumer's mind

In the 2005 consumer environment, foodstores will be engaged in a multi-dimensional battle for share of various broadly defined markets such as: discretionary expenditure, leisure time, consumer relationships, word of mouth and shopping occasions.

The challenge is very significant. Many consumers are time pressured, food shopping can be a chore, and competition from leisure alternatives and high interest retail alternatives has never been greater. The risk to foodstores is that the local pre-eminence they have enjoyed, albeit sometimes by default, will slip, and once it has slipped it will be ever harder to regain.

Consumers' repertoire of service company relationships across all sectors will tend to mirror their pattern of personal relationships (although care needs to be exercised about what the word relationship means in the consumer-foodstore context (see section 5.5.1)). There will be:

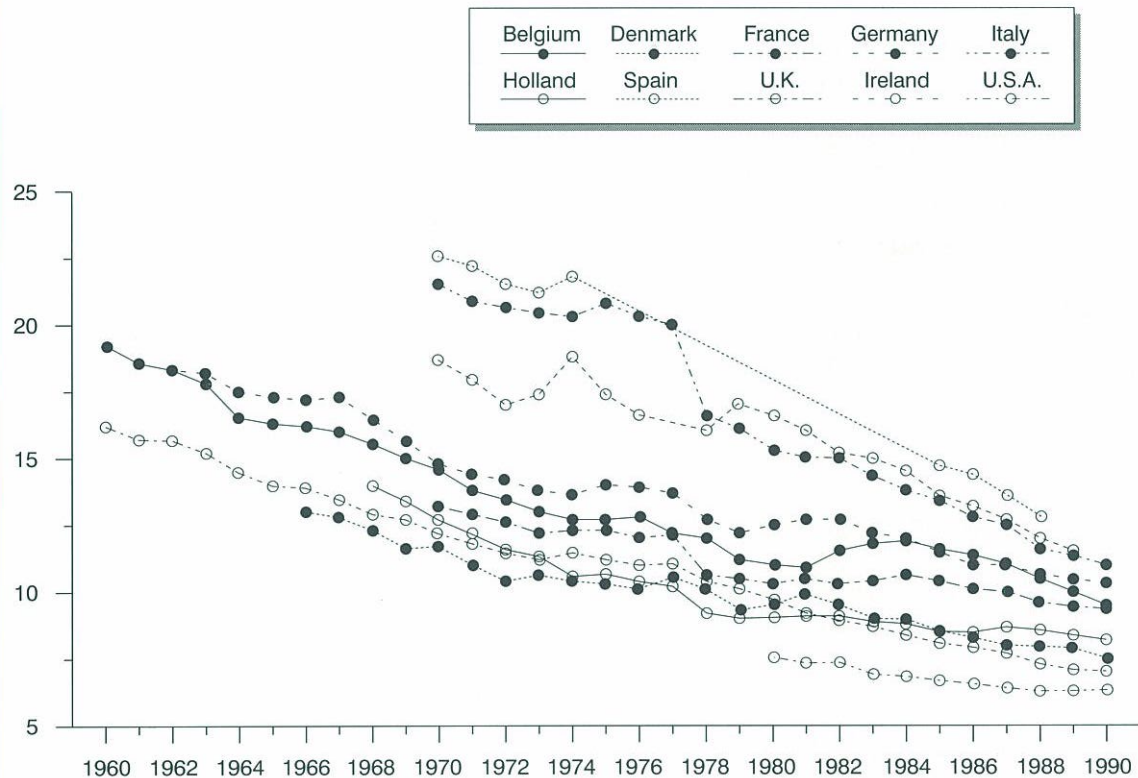
- a limited number of very strong friendships based on mutual trust and respect;
- a number of lesser friendships;
- a larger number or network of casual acquaintances.

The excellent 2005 foodstore has to aim for the top division, competing against all other service providers for this privilege. Key consumer factors will include establishing shared values, trust, commitment, a continued ability to surprise and innovate, two way communications and a better understanding of individual needs and interests.

3.4 INTENSIFICATION OF INTERNAL COMPETITION WITHIN THE EXISTING SYSTEM

The retail food market is mature. Europeans are advised to eat less not more, albeit to eat better. Food's share of GDP in Europe and the US has fallen consistently since the war.^{6,7}

Food as a % of GDP



Source: OECD

In part, food's declining share of GDP is inevitable. As countries become richer they spend their wealth on things other than food. The proportion of GDP spent on food 'Engels Coefficient' has decreased over hundreds of years. However, part of the recent decline might be ascribable to a decline in the food culture of Europe. Foodstores must assume responsibility for fostering and sustaining the food culture where they operate. This is a long term and subtle marketing and educational challenge.

In 1989 – 1995, real demand for food in Western Europe increased by 6.4%⁷, yet supply, measured by square metrage, increased by 9.4%⁸. It varies across Europe, but the strong players now have to directly fight each other for growth rather than take share from weak players. The slack in the system has largely been reeled in.

Looking forward, the sum of competitor ambitions is certain to run ahead of the available food market, driven by competitive openings, international expansion and new channels and modes.

Supply and demand can be brought in line through:

- the breakeven level of a square metre being reduced through cost reduction and lower build costs;
- capacity being shut down either in the form of whole stores or parts of stores;
- capacity being converted to non food categories;
- adding value that will increase the market.

Food's declining share of GDP together with retail food's declining share of total food spend creates a major 'double hit' on foodstores. A third pressure is that food price inflation in Europe generally lags significantly behind overall inflation.

3.5 THE LONG TERM EROSION OF MASS MARKETING AND ITS REPLACEMENT BY MASS CUSTOMISATION

'Mass customisation', or marketing to the segment of one, has been a marketing rallying call for a decade.

By 2005, the technological capability to operate a foodstore at or near the segment of one will be close. Customer relationships are perhaps the last key area to be touched by the 'retail is detail' adage.

The impact on food retailing is potentially colossal. For 20 – 30 years foodstores have epitomised marketing to the 'segment of millions'. In the future, even a focus on the "segment of one" will be insufficient. Ultimately relevant is the "segment of 0.1" which reflects individuals' complex and occasion-specific food shopping patterns.

Foodstores currently have excellent data on what people buy. Looking forward the critical question for foodstores is 'why?'

Other important shifts involved in the 1-1 transition are:

- *from transactions to "lifetime" or "annual" value*; the average Western European has a lifetime retail food market value at 1995 prices of approximately \$200,000⁹. A middle income household of four has an annual food market value of around \$3,500⁹. Common sense suggests that tranches of business of this size merit individual attention;
- *from finding customers for a defined product range to finding products and formats for a defined customer base*; a reflection of the belief that in the future customer-centricity is key. Micro-marketing and local category management initiatives are merely early stages of this focus;
- *designing the total business around getting so close to the customer that switching costs are prohibitive both for the customer and competing retailers.*

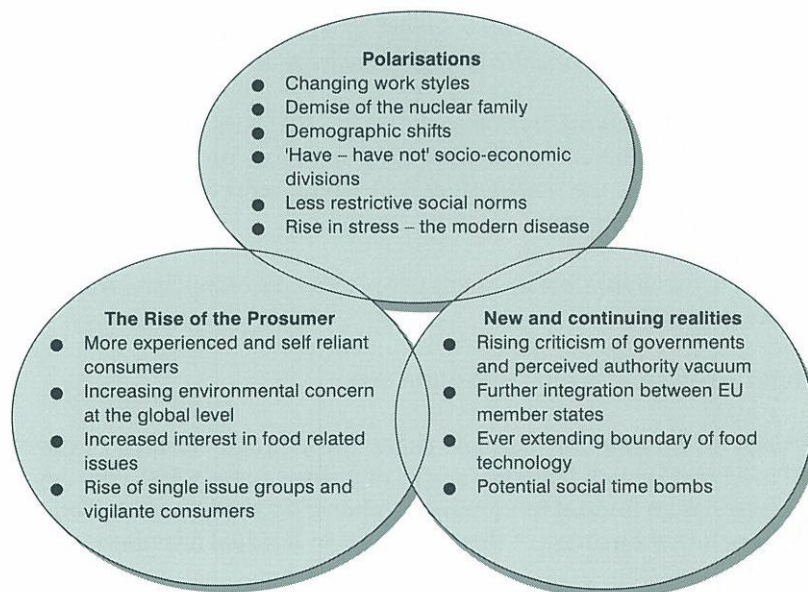
3.6 THE CERTAINTY THAT ESTABLISHED OR FORESEEABLE CONSUMER TRENDS WILL MAKE THE FOOD RETAILING ENVIRONMENT MORE CHALLENGING

The 1996 – 2005 consumer and social environment for the foodstore will be characterised by the confluence of a series of observable trends and dynamics.

We group these under three headings:

- 3.6.1 *polarisations* across a wide range of consumer variables and ‘fracture lines’;
- 3.6.2 the rise of *the ‘prosumer’* based on the increasing marketing and retailing literacy, sophistication and vociferousness of consumers;
- 3.6.3 *new and continuing realities* covering a series of established and emerging consumer behaviour patterns and social and economic contexts relevant to food retailing.

Key Drivers and Supporting Factors



Below we look at what is behind each theme:

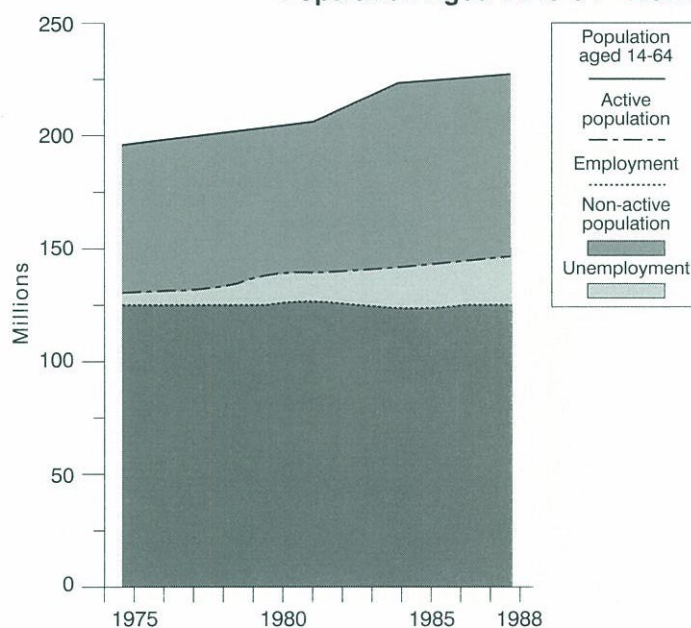
3.6.1 Polarisations

| FACTOR | SUPPORTING TRENDS | EVIDENCE | IMPLICATIONS FOR FOODSTORE OPERATORS | | | | | | | | | | | | | | | |
|--|--|---|--|------|------|----|-------|-------|----------|-----|-------|-------|-----|-------|---------|-----|-----|--|
| 1 Changing work styles | <ul style="list-style-type: none"> More women working Less job certainty No jobs for life guarantees Longer working hours for many in work More part time work More varied career patterns Teleworking increasing from a low base Unemployment stuck at high levels More contracting out of non core activities | <ul style="list-style-type: none"> Women in European workforce increased from 6.6% in 1983 to 51.0% in 1988 9% of European working population unemployed, an increase from 5 million in 1977 to 12.7 million in 1989 33.7% of Europe's unemployed in 1988 were heads of household Part time work in Europe increased from 2.1% in 1983 to 3.2% in 1988 9.6% of European workers had temporary contracts in 1988 <p>Source: Eurostat¹⁰</p> | <ul style="list-style-type: none"> Shopping is a less female dominated activity Less time for shopping for many More caution with household budgets Change in time and destination of shopping More convenient food needed Fewer home-based meal occasions Demand for longer opening hours and more convenience Demand for stores closer to the work place A backlash against the personal time investment spent in purchasing and preparing food | | | | | | | | | | | | | | | |
| 2 Demise of the nuclear family | <ul style="list-style-type: none"> Wider spectrum of single households Smaller families Fewer families with children Divorce increasing Later age of first childbirth | <ul style="list-style-type: none"> 22.3% of households in Europe were single persons in 1992 8.4% of European families are one-parent 20 – 33% of European family units are childless married couples <p>Source: Eurostat¹⁰</p> | <ul style="list-style-type: none"> Improved range and size offering for singles needed More important to gain loyalty amongst young family group Need to cater for emerging older affluent singles and couples Need to meet needs of each individual | | | | | | | | | | | | | | | |
| 3 Demographic shifts | <ul style="list-style-type: none"> The European population was 347 million in 1993 + 0.4% in 1992¹⁰ Population is growing older <p>Source: Eurostat¹⁰</p> | <ul style="list-style-type: none"> Population growth is mainly due to net migration The natural increase was its lowest since 1960 due to a large fall in the birth rate and slightly fewer deaths Life expectancy for Europeans has increased by 10 years in the past 40 years Number of births in Europe has fallen by 5% in last 30 years People over 60 will increase from 19% of European population in 1988 to 26% in 2020 People under 20 will fall from 26% of European population in 1988 to 21% in 2020 <p>Source: Eurostat¹⁰</p> | <ul style="list-style-type: none"> Older customers will be more powerful and experienced Social motive to store visits will increase Ease of access to stores will become more important Retired people have time to shop around for price bargains and portion sizes required Staff need to be able to relate to older age groups Competition for available youth market will intensify Cultural influences spread across generations | | | | | | | | | | | | | | | |
| 4 'Have – have not' socio-economic divisions | <ul style="list-style-type: none"> Rich richer Poor poorer Polarisations along the lines of: <ul style="list-style-type: none"> Healthy – unhealthy Time rich – money poor Time poor – money rich technology literate – technology illiterate Mobile – immobile | <ul style="list-style-type: none"> For those in employment in Europe remuneration has increased steadily (2.2% / annum from 1970 to 1988) The proportion of 'poor' people in the population has increased: <table border="1"> <thead> <tr> <th>Country</th> <th>1980</th> <th>1985</th> </tr> </thead> <tbody> <tr> <td>UK</td> <td>14.6%</td> <td>18.2%</td> </tr> <tr> <td>Portugal</td> <td>32%</td> <td>32.2%</td> </tr> <tr> <td>Italy</td> <td>14%</td> <td>15.5%</td> </tr> <tr> <td>Ireland</td> <td>17%</td> <td>19%</td> </tr> </tbody> </table> The average working week for full-time employees was 40.7 hours. A 1994 Compuserve¹¹ survey showed significant bias in Internet usage with a typical user being well educated, married, male, 30+, with keen interest in technology >70% of European households own 1 or more cars 85% of journeys made by car are regarded as essential <p>Source: Eurostat¹⁰</p> | Country | 1980 | 1985 | UK | 14.6% | 18.2% | Portugal | 32% | 32.2% | Italy | 14% | 15.5% | Ireland | 17% | 19% | <ul style="list-style-type: none"> Customer needs will polarise and be harder to meet from under one roof: <p>Wealth "haves"</p> <ul style="list-style-type: none"> Greater demand for high quality High expectations of service Wealth "have nots" No frills environment Cheap prices Bargain mentality <p>Time "haves"</p> <ul style="list-style-type: none"> Travel further to shop Prepared to shop around Shopping becomes a social activity Greater use of store facilities <p>Time "have nots"</p> <ul style="list-style-type: none"> Locational convenience Shopping process quicker Ideas suggested <p>Technology literate</p> <ul style="list-style-type: none"> Will want system based shopping services Will want services to keep abreast of technology <p>Technology illiterate</p> <ul style="list-style-type: none"> On going demand for store based shopping Continued reliance on traditional media TV, radio for communication <p>Mobile</p> <ul style="list-style-type: none"> Continued demand for new out of town facilities Able to travel further <p>Immobile</p> <ul style="list-style-type: none"> Demand for local shops Reliable public transport network to out of town stores More frequent small basket trips due to limitations on how much can be carried |
| Country | 1980 | 1985 | | | | | | | | | | | | | | | | |
| UK | 14.6% | 18.2% | | | | | | | | | | | | | | | | |
| Portugal | 32% | 32.2% | | | | | | | | | | | | | | | | |
| Italy | 14% | 15.5% | | | | | | | | | | | | | | | | |
| Ireland | 17% | 19% | | | | | | | | | | | | | | | | |

| FACTOR | SUPPORTING TRENDS | EVIDENCE | IMPLICATIONS FOR FOODSTORE OPERATORS |
|--|---|--|---|
| 5 Less restrictive social norms | <ul style="list-style-type: none"> Changes in eating habits Fragmentation of meal occasions <ul style="list-style-type: none"> rise in snacking fewer formal meal occasions decline in culinary skills Broadening horizons and experiences Today's exotic rapidly becoming tomorrow's norm Mix and match lives. Eclectic tastes not limited to a single influence | <ul style="list-style-type: none"> Decline in "3 meals/day" Snacking now accounts for 19% of in-home meal occasions in the UK Individualisation of household consumption Rise in brand duplication e.g. Number of cereals/ shampoo bought per household <p>Food preferences</p> <ul style="list-style-type: none"> Increase in vegetarianism Increase in diet/health foods Increase in child orientated products Desire for more fresh foods <p>Repertoire of diet</p> <ul style="list-style-type: none"> Internationalisation of food Increase in experimental cooking 56% of people in Europe take a holiday Passenger miles travelled by air have doubled in the last 10 years and will double again over the next 15 years <p>Source: Retail Week¹²</p> | <ul style="list-style-type: none"> Increasing thirst for choice and new products from around the world Desire for more information <ul style="list-style-type: none"> nutrition ingredients serving suggestion recipes accompaniments wine suggestion Assistance with meal planning/ ideas Seek "unitary" elements to make up meal to suit all the family Authentic foreign foods demanded Demand to buy all the accompaniments Increasing demand for: <ul style="list-style-type: none"> vegetarian low fat and low sugar products Increase in demand for snack and convenience food |
| 6 Rise in stress – the modern disease | <ul style="list-style-type: none"> Rising working hours Rising travel times Rising female participation in work force Dual worker households Congestion increasing Competitive pressure for performance is more intense | <ul style="list-style-type: none"> 86% of UK women never have enough time to "get things done"¹³ UK adults spend 900 million hours a year escorting children to and from school Journeys to work have increased from 5.2 miles in the 1960s to 8.2 miles in the 1990s Time to do shopping has increased with the move out of town 44% of UK workers arrive home exhausted <p>Source: Henley Centre¹²</p> <ul style="list-style-type: none"> Incidents of "cart rage" reported | <ul style="list-style-type: none"> Consumers generally less tolerant of dead time, irritants and errors Ever increasing requirements for convenience. "Meal engineering" 60 years ago took 2 hours, today dinner can be "engineered" in 15 minutes²⁴ Consumers will respond to those who can take the stress and time out of the food shopping, preparation and consumption process Demand for more flexible opening hours |

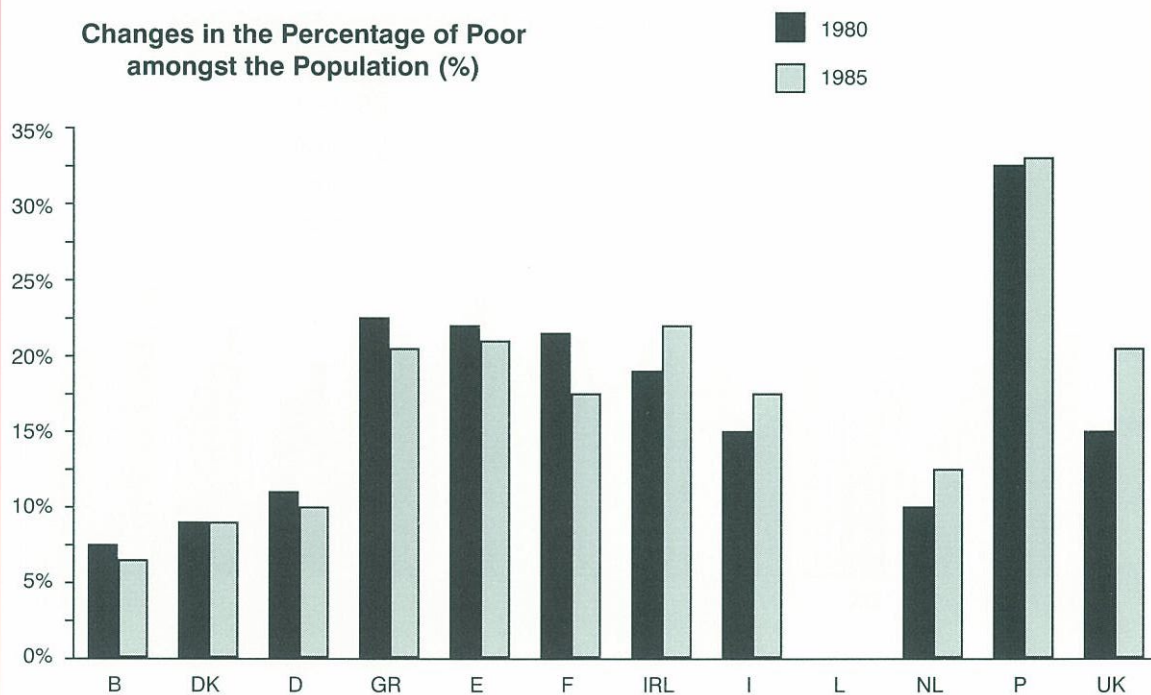
Changing Work Styles (continued)

Changes in the Structure of the Population Aged 14 to 64 – EUR12 (millions)



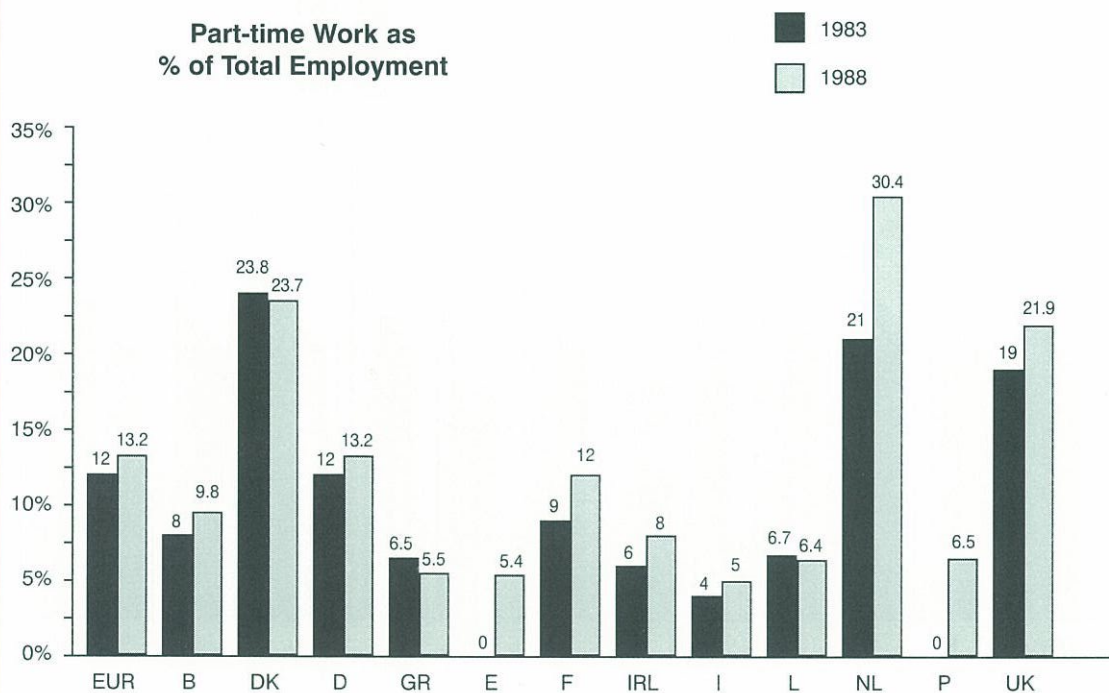
Changing Work Styles

Changes in the Percentage of Poor amongst the Population (%)



B = Belgium, DK = Denmark, D = Germany, GR = Greece, E = Spain, F = France, IRL = Ireland, I = Italy, L = Luxembourg, NL = Netherlands, P = Portugal, UK = United Kingdom

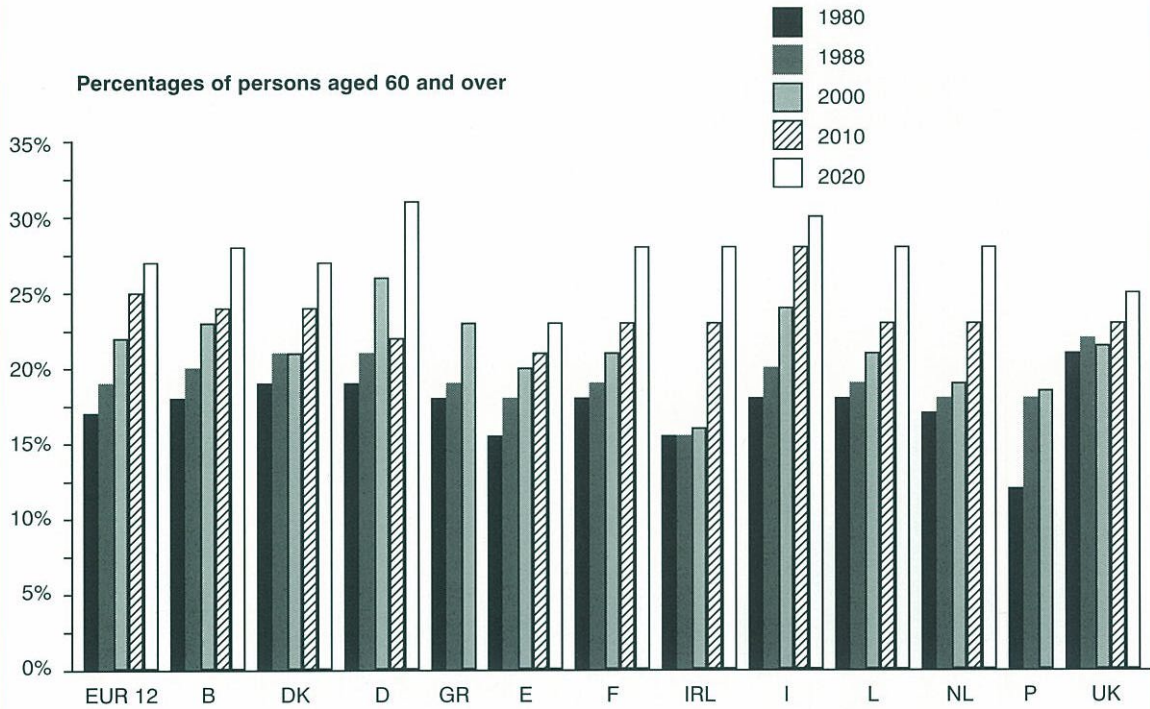
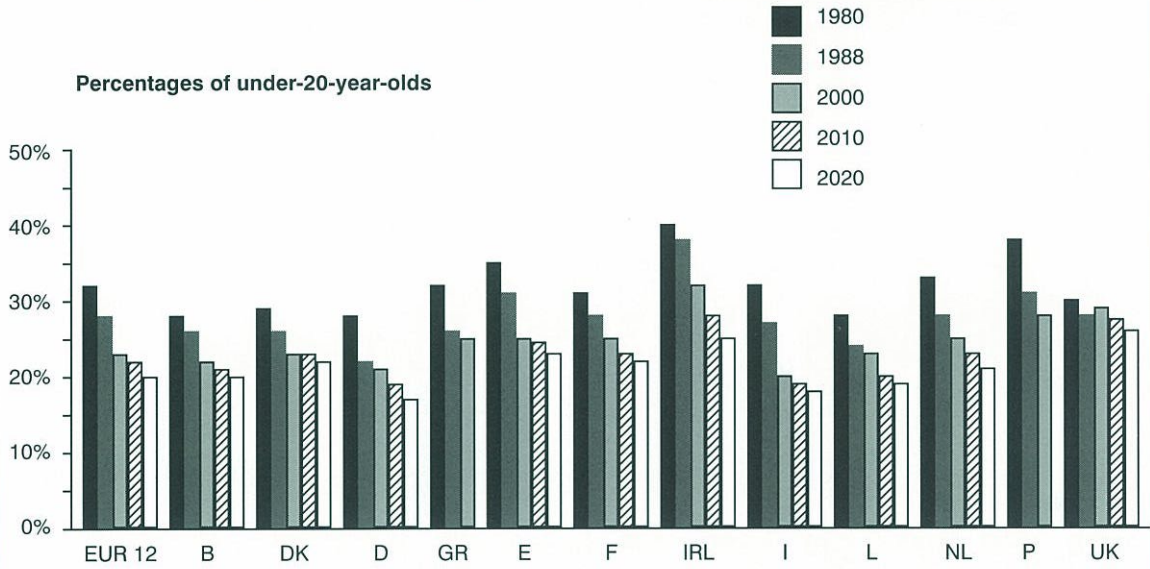
Part-time Work as % of Total Employment



B = Belgium, DK = Denmark, D = Germany, GR = Greece, E = Spain, F = France, IRL = Ireland, I = Italy, L = Luxembourg, NL = Netherlands, P = Portugal, UK = United Kingdom

Changing Work Styles (continued)

Percentages of Under-20-year-olds and Persons Aged 60 and Over



B = Belgium, DK = Denmark, D = Germany, GR = Greece, E = Spain, F = France, IRL = Ireland, I = Italy, L = Luxembourg, NL = Netherlands, P = Portugal, UK = United Kingdom

3.6.2 The rise of the Prosumer

| FACTOR | SUPPORTING TRENDS | EVIDENCE | IMPLICATIONS FOR FOODSTORE OPERATORS |
|---|--|---|---|
| <p>1 More experienced and self-reliant consumers</p> | <ul style="list-style-type: none"> ● Consumers have learnt from their previous experience of the boom/bust cycle ● Greater need for self provision ● Pressure to "live within your means" ● Predisposition to settle debts ● Greater marketing literacy ● International media exposure ● Massive exposure to advertising and commercial messages ● More "me-ism" – a belief that individuals can get what they want ● Eclectic mix and match lifestyles ● Confidence in ability to select – rather than be told ● Greater cynicism about institutions and traditional paragons of authority ● More complex shopping behaviour ● Interest in companies behind fascias and brands | <ul style="list-style-type: none"> ● Activist generation; middle aged born post war, lived through consumer society ● Disillusioned generation; experienced the 80's recession, badly affected and going through a period of re-adjustment ● In the UK, debt to income ratio fallen from 103:100 in 1990 to 96:100 in 1994 Source: Retail Week¹² ● In past 5 years pensions/life insurance has risen from 3.5% to 4.3% of disposable income Source: Retail Week¹² ● Evidence that consumers switching from bargain (price) to value mentality (price and quality) ● Growth of own label ● Tactical shopping behaviour ● In Europe two thirds of shoppers switching primary stores do so for non-locational reasons. Source: FMI¹ | <ul style="list-style-type: none"> ● Consumers becoming more questioning of value ● Need for images and messages which reassure ● Credibility and trust vital ● Very easy to be out of touch ● Continuous need to add 'real value'/quality ● Research must understand the key drivers of quality perception ● Marketing must avoid patronising consumers ● Green/ethical products must generally be the same quality and of similar price to standard product ● Improved labelling and information at POS needed ● Greater expectations of corporate behaviour ● More varied tastes to satisfy |
| <p>2 Increasing environmental concern at the global level</p> | <ul style="list-style-type: none"> ● Increased concern about the environmental impact of motor transport ● Increased concern about the environmental impact of industrial waste disposal ● Increased concern about the impact of food packaging and its effect on the environment ● Children brought up to be environmentally aware | <ul style="list-style-type: none"> ● 50% of particulates in the atmosphere in Europe come from motor vehicles according to the EU¹⁴ ● Motor vehicles release 19 million tonnes of carbon monoxide and 4 million tonnes of nitrous oxide a year in Europe, with serious consequences for health and the regions ecology according to the EU¹⁴ ● OECD estimates that the environmental damage motor vehicles create is approximately \$200 per person per year in Europe¹⁴ ● The official journal of the European Communities cites the transport sector as the biggest contributor to the problem of noise ● A study by Bouladon¹⁶ estimates the cost of congestion in Western Europe to be 2–3% of GNP, approximately \$115 billion a year ● The CBI in the UK¹⁷ estimates that congestion costs the country \$1000/vehicle/year ● In Austria there is evidence that some young people are "rejecting" the car, it is seen as less of a status symbol due to its perceived environmental impact ● OECD¹⁵ estimates that 110 million people in Europe are exposed to unacceptable levels of noise due to motor vehicles ● 50% of European¹ consumers are very concerned about the impact of food packaging on the environment ● 83% of European¹ households recycle at least one item e.g. glass, paper on a regular basis Source: FMI | <ul style="list-style-type: none"> ● More difficult for consumers to reach the store ● More costly for consumers to reach the store ● Pressure from increasing cost of distribution ● Rising pressure to source locally ● Cost of operating recycling system falls on retailers/ manufacturers ● Maintaining quality of presentation with reduced packaging ● Impact on distribution systems of a move away from cardboard outer packaging ● Opportunity to build propositions around this issue |

| FACTOR | SUPPORTING TRENDS | EVIDENCE | IMPLICATIONS FOR FOODSTORE OPERATORS |
|---|--|---|--|
| 4 Increased interest in food related issues | <ul style="list-style-type: none"> Greater awareness of a balanced diet Concern over food safety Increase in food programmes and food magazines Interest in ingredients and additives | <ul style="list-style-type: none"> 90% of European consumers concerned about nutritional content of food 42% of European consumers think that nutritional labelling on food is inadequate 40% of European consumers have some concern regarding food safety <p>Source: FMI¹</p> | <ul style="list-style-type: none"> Improved nutritional labelling Opportunity to help in balancing diet (e.g. alcohol units help regulate intake) More stringent ingredients labelling Responsibility for food nutrition is seen to be a key food manufacture and retailer issue Opportunity to assist on lifestyle issue |
| 5 Rise of single issue groups and vigilante consumers | <ul style="list-style-type: none"> Issue/pressure groups becoming more mainstream Retailers under increasing attack from consumer critics Animal cruelty, intensive farming, worker exploitation in 3rd world countries becoming issues | <ul style="list-style-type: none"> Scathing consumer reports of the entire retail industry e.g. "Off our trolleys"¹⁸ UK Public Policy Unit and "Food Watch"¹⁹ Drew Smith Membership of Green Peace increasing etc. while political party membership decreasing Political correctness | <ul style="list-style-type: none"> Clear position required on major pressure group issues Effective public relations department essential More transparent response to consumer critics needed Need to cater for requirements of minorities and those with special needs |

3.6.3 New and continuing realities

| FACTOR | SUPPORTING TRENDS | EVIDENCE | IMPLICATIONS FOR FOODSTORE OPERATORS |
|--|--|---|--|
| 1 Rising criticism of governments and perceived authority vacuum | <ul style="list-style-type: none"> Personalisation of influence and respect Employer/employee relationship weakening Less regard for "community" and institutional figures, e.g. politicians, doctors, solicitors etc. | <ul style="list-style-type: none"> Word of mouth an increasingly important channel of influence Influential relationships are personal, one-one basis Adult relationships more democratic (between equals) Personal relationships are interactive Low voting rate among the young at elections Ruthless tabloid media | <ul style="list-style-type: none"> Improvements will be required in the one-one-one relationships with customers Potential opportunity for food store to become a focus in the community Brands must appeal to adult's level of rational benefit and not be paternalistic |
| 2 Further integration between EU member states | <ul style="list-style-type: none"> Europe is rapidly developing a common economy separated by diverse cultures European Union is currently in an 'authority vacuum' EU legislation is increasingly replacing domestic legislation | <ul style="list-style-type: none"> High level of inter Europe trade. E.g.. In 1991 the Netherlands exported the equivalent of 47% of its GDP to other European countries²⁰ Lack of public consensus/ understanding of EU policies | <ul style="list-style-type: none"> Cost and process implications of European directives on transport, packaging, waste etc. Operational cost of the introduction of single currency |
| 3 The extending boundary of food technology | <ul style="list-style-type: none"> Pace of development in food technology increasing Rising concern over what is technically possible and what is desirable through genetics | <ul style="list-style-type: none"> Standardisation has resulted in huge loss of genetic variation of crops Genetic engineering not always seen as desirable Break-through in plastics technology created the ready-meal market | <ul style="list-style-type: none"> Potential consumer backlash Potential to become "out-of-touch" Require clearly defined policy on what is un-acceptable |
| 4 Potential social timebombs | <ul style="list-style-type: none"> Increase in violent crime Growth of potentially problematic "under class" Emerging social and 'retail deserts', inner cities and rural areas Increasing incident of drug abuse | <ul style="list-style-type: none"> Perceptions of insecurity have risen Levels of personal fear and anxiety have risen Drug abuse is estimated to cost the US \$60 billion/ annum¹⁹ | <ul style="list-style-type: none"> Increasing need to allay consumer fears Fragmenting store formats based on socio-economic not geography Increasing pressure to provide safer environment for consumers Pressure to service un-economic retail deserts |

3.7 THE POSSIBILITY OF MORE RADICAL SOCIO-ECONOMIC FRACTURE LINES OPENING UP

Within society and the economy a series of fracture lines exist which if subjected to 'seismic' shock could result in more extreme and challenging scenarios.

Extrapolating observable trends to the extreme and examining 'what could go wrong', various scenarios are possible including:

- *ghettoisation*: an extreme result of existing fragmentations which could result in further change in the spatial distribution of society, along the lines of race, religious groupings, and poverty;
- *European economic failure* which might be triggered by an aborted or failed attempt to introduce the single currency or could result from a backlash and subsequent power shift to outer and non-European trading nations. This contrasts with the general consensus of European medium term growth forecasts which are for steady if not spectacular growth;
- *extreme consumer militancy* with vociferous groups demanding changes in the complete infra-structure of the food industry to satisfy environmental and humane food production demands and to ensure that the food sector's full perceived costs are 'internalised';
- *natural or environmental disaster*: unprecedented environmental disaster, e.g. a nuclear accident, could severely disrupt commercial confidence, day to day life and the food chain.

Below we look briefly at each scenario. It is not an exhaustive list, but illustrates that foodstores in their forward planning must evaluate what could go wrong and, as a practical and cultural issue, be prepared to adapt to significant external shocks.

'What could go wrong' scenarios

| POTENTIAL SCENARIOS | CHARACTERISTICS | OBSERVABLE TRENDS | IMPLICATIONS |
|-------------------------------------|--|---|---|
| 1 Ghettoisation | <ul style="list-style-type: none"> Severe change in the spatial distribution of society along the lines of race, religious grouping or poverty | <ul style="list-style-type: none"> A rise in hostility towards ethnic and religious minorities. E.g. breakdown of Yugoslavia. Increased support for the far right in the French elections A rise in religious fundamentalism. E.g. Moslems in Iraq, the popularity of religious cults in the US Large cross border migrations E.g. the break up of the former Soviet Union Increasing presence of an "underclass". E.g. rise in the % of long term unemployed Increasing evidence of "Ethnic Cleansing" Many Central and Eastern European borders cut across ethnic groups Difficulties in assimilating immigrants already an issue in Europe. E.g. recent problems in Germany | <ul style="list-style-type: none"> Retailers forced to take a socially responsible stance (Pathmark in the USA have launched a major programme to take foodstores back into the inner-city e.g. in Harlem and Queens in New York) Pressure to maintain service in uneconomic areas Emergence of "supra discount" Evolution of ethnic stores |
| 2 European economic failure | <ul style="list-style-type: none"> Severe recession Breakdown of the co-operation between EU member states Long term oil crisis as a result of un-rest in the Middle East | <ul style="list-style-type: none"> Uncertainty over a single currency Members leaving due to policy disagreements. E.g. UK's resistance to single currency Rising competition from cheap 3rd world labour Power shift to non European trade alliances | <ul style="list-style-type: none"> Extreme price sensitivity Destabilisation of the existing food chain Greater reliance on domestic sourcing |
| 3 External consumer militancy | <ul style="list-style-type: none"> Environmental anarchism Politicisation of consumer groups | <ul style="list-style-type: none"> Increasing popularity of single issue extreme groups. E.g. Greenpeace Rising number of vigilante consumers. E.g. protests against live veal exports in the UK Increasing numbers of food health exposés. E.g. Salmonella in eggs, BSE in beef Genetic engineering becomes out of control Backlash against mass production and intensive farming techniques Rise in genetic discrimination. E.g. insurance companies withholding life assurance Weakening of genetic pool in crops leading to epidemics of disease | <ul style="list-style-type: none"> Pressure for a return to traditional farming methods Demand can't be fulfilled with "old" techniques Sole supply partnerships critical |
| 4 Natural or environmental disaster | <ul style="list-style-type: none"> Nuclear incident Killer disease | <ul style="list-style-type: none"> Instability of the former Soviet Union's ageing nuclear plants Can nuclear power stations withstand earthquakes? Further mutation of already known killer diseases e.g. AIDS | <ul style="list-style-type: none"> Collapse of key markets e.g. insurance Contamination of food chain Food chain taken under state control Severe shock to consumerist way of life |

3.8 THE CHALLENGING REGULATORY AND POLITICAL ENVIRONMENT

Policy and regulation have long been critical drivers of retail change and this will continue.

Whilst much current legislation is country specific, the evolution of the European Union (EU) will change the complexion of the legislation affecting retailers, and accelerate the pace of change.

The potential impact of these changes will be to add significant cost to retailers' operations. The ability to re-engineer existing processes and seek creative alternatives will be critical.

The areas most impacted are:

- 3.8.1 Site location.
- 3.8.2 Store opening hours.
- 3.8.3 Transport.
- 3.8.4 Packaging and waste.
- 3.8.5 Employment.

3.8.1 Site location

Stringent planning controls exist throughout Europe. Over the past 20 years they have been the main determinants of the spatial distribution of retail outlets.

In general, legislation has been aimed at protecting small independent retailers. Increasingly however, regulation is focused on limiting the environmental and social impact of large space out of town retailing.

One impact has been to restrain the spread of new capacity. Europe therefore has avoided the levels of retail concentration seen in the United States. In addition, the asset value of existing sites has been pushed up.

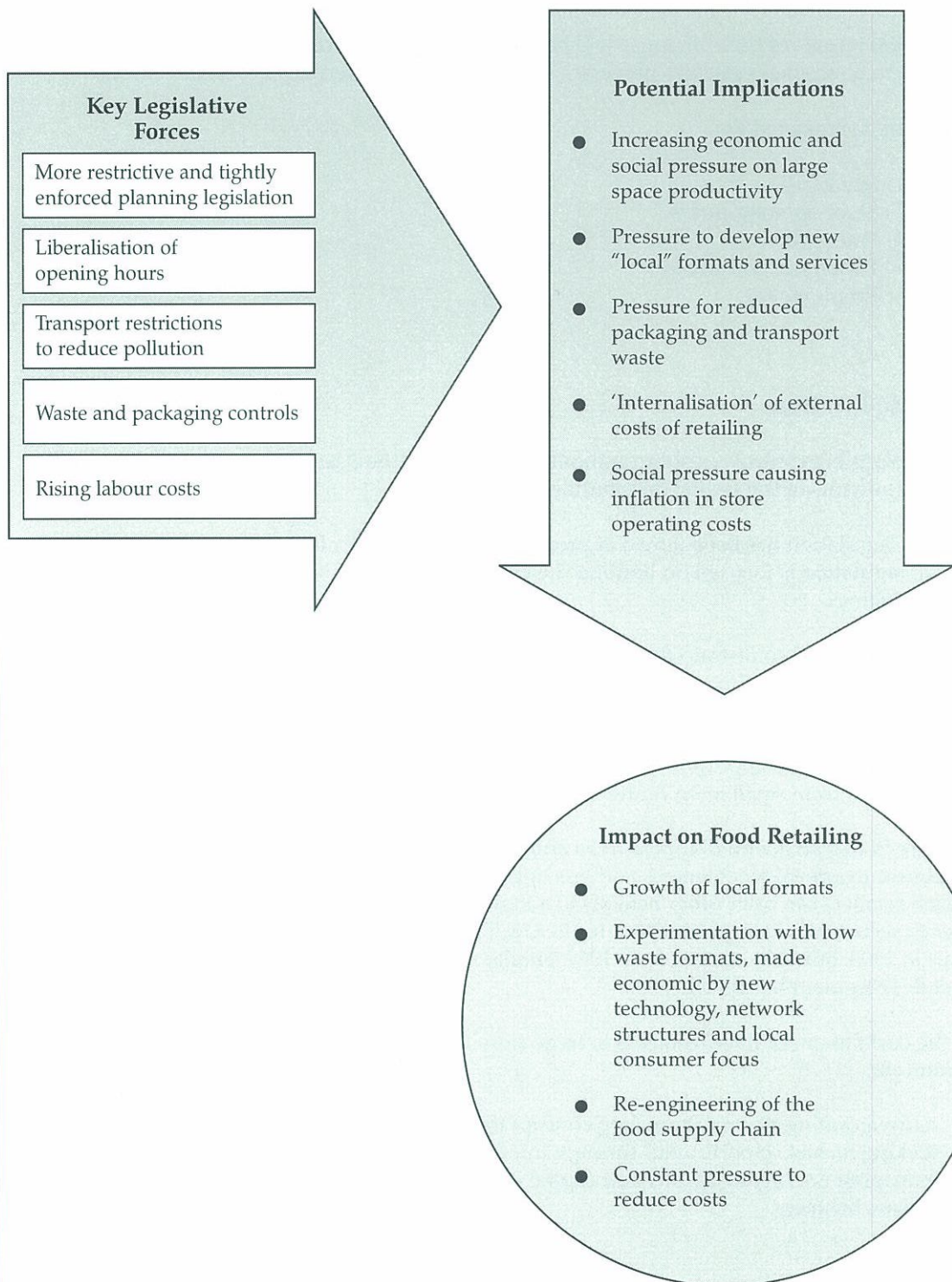
Current legislation also appears to have facilitated the development, throughout Europe, of the hard discount format from small town centre units that fall below the current planning control threshold.

The future in this area would appear to be enforcement of current legislation, with retailers having less recourse to appeal mechanisms and less opportunity to exploit "planning gain" – the process by which retailers can offer other benefits to a local council e.g. new road schemes or leisure centres to secure planning permission. In the UK, J Sainsbury and Tesco won over half of their appeals in 1993, but only one in ten in 1994. Similar change is evident in France where hyper-market development has halted.

With the curtailment of developments in large store retailing, the challenges for foodstore operators are:

- re-invigorating the one stop-shop concept in town centres;
- seeking format opportunities through international expansion;
- managing the organisational and capital impacts of a change from a cash outflow to a cash in-flow business.

Impact of Legislative Forces



3.8.2 Store opening hours

Across Europe considerable restrictions remain on store opening hours during the evenings and on Sundays. The trend to liberalisation, driven by consumer demand, has been counterbalanced by government reluctance to amend legislation. This stems from related considerations including workers' rights and religious beliefs. (UK law was only amended to allow 7-day opening following a period when retailers flouted existing laws.)

Whilst extended opening hours provide an opportunity for individual foodstores to increase turnover, experience suggests that total market size is more or less fixed. The major change is therefore the re-distribution of shopping time, making it even more weekend biased. However, operational costs are pressurised, with additional deliveries required to support weekend trade and additional staff costs payable for unsocial hours. There will be winners and losers amongst retailers, with evidence suggesting that stores with wider ranges satisfying a broad spectrum of family requirements will fair the best.

3.8.3 Transport

Increasing road usage in Europe has generated traffic congestion, physical damage to roads, air and noise pollution and other social effects. Increasing awareness of these problems is likely to influence change.

Legislation aimed at minimising these factors is already getting tougher.

Between 1970 and 1992, legislated limits on carbon monoxide, hydrocarbons and nitrogen oxides in Europe halved every six years. Legislated limits on particulates halved every three years.¹⁶

Whilst this trend is expected to continue, the reality of actually imposing more stringent limits is illustrated by the Californian situation. The Air Resources Board had required the major car makers to meet targets for selling zero emission vehicles (initially 2%) by 1998. This deadline was suspended in January 1996²³ following a period of intense lobbying by the car and oil industries arguing that the rules were unrealistic and counter productive. Car manufacturers will now only need to sell 2000 electric vehicles in Los Angeles and Sacramento between 1998 and 2000.

The estimated cost of road congestion in Western Europe is 2-3% of GNP, or approximately \$115 billion per annum¹⁷. In many cities, the speed of rush hour traffic is less than 8km/hour. Schemes to restrict traffic, such as in Athens, where cars were only allowed to enter the city every second day have invariably been abandoned as ineffective.

Freight transport is a significant contributor to congestion: 89% of European freight is moved by road¹⁶. Legislative attempts to reduce the associated congestion and noise include night-time restrictions, bans on lorries in town centres, and maximum load weights.

An example is the Eco-points system in Austria. EU lorries that transit through Austria "pay" with Eco points. The value of an Eco-point is linked to the amount of nitrogen oxide emitted. By restricting the number of Eco-points available annually to hauliers, Austria controls the level of associated pollutants. Total points available will be reduced by 60% by 2003²¹, thus encouraging improvements in vehicle emission standards.

In Europe, 63% of shopping trips are now made by car¹. One lobby holds that supermarket development policies encourage car usage, citing, for example, public statements from large operators such as "new sites are located where safe and convenient access is obtainable by car" and "today we would not open a store which did not have a large surface level car park".

Criticism has also been levelled at the transport implications of edge-of-town stores. One research study¹⁸ concludes that the total distance travelled by consumers to edge-of-town locations is over twice that travelled to town centre locations. By applying a figure for the 'external' costs of motoring per kilometre, the study suggests that an out of town superstore enjoys a "social subsidy" of \$37,500 per week in transport costs compared to a town centre equivalent.

In response, retailers argue that retail development responds to social change, it does not create it and that the increase in car ownership and mobility have led to the increase in car use for shopping rather than the other way around. They have argued²² in the UK that:

- consumers value superstore advantages highly. If a superstore is not available nearby, they are prepared to travel substantial distances. Thus appropriately placed new superstores are likely to reduce the distance travelled for food shopping;
- recent planning legislation changes limiting new superstore development perversely will maintain the energy use associated with food shopping at unnecessarily high levels;
- increased centralisation of deliveries via regional distribution centres has reduced the number of deliveries made to individual stores (e.g. Tesco deliver 133% more product cases with the same number of vehicles than six years ago). However critics suggest that centralisation often means longer journeys and that a switch to just-in-time inventories means more frequent deliveries, increasing the number of Heavy Goods Vehicles (HGVs) on the road.

In addition, it is argued that modern sourcing policies increase transport dependency. The requirement for large quantities of uniform produce often precludes local sourcing, and the offer of increasingly exotic ranges requires long distance transport.

In summary, evidence suggests that there will be little change to the dependency on motor transport in the next ten years, although legislation is likely to be more punitive. The impact on foodstores who rely on the car to transport their customers is likely to be low. The strength of the consumer tie to the car means that the cost shifts to the individual would have to be very large to make a difference.

3.8.4 Packaging and waste

The European Community started to regulate packaging in the 1980s, with a directive to reduce environmental impact and promote reduced energy and raw materials consumption. This was unsuccessful. Many member states ignored the directive. Others such as Germany passed more stringent legislation of their own.

A further directive on Packaging and Packaging Waste was adopted by the Council in 1994 and will come into force in member countries by June 1996. It states that within five years, by weight, a minimum 50% and a maximum of 65% of packaging waste will have to be recovered and a minimum 25% and a maximum 45% of packaging will have to be recycled.

Aside from these stringent targets, the directive allows member countries to introduce financial penalties (green taxes) to ensure that the levels are achieved. This proposal met with vigorous industry lobbying as there is no requirement for revenues raised in this manner to be reinvested in recycling.

In adopting this directive, member states are tending to follow the German principle that the polluter pays. As a result, manufacturers and retailers effectively become responsible for the life cycle of their products including transit and product packaging.

The potential cost implications for retailers are immense. These are apparent in countries such as Belgium where the directives have already been implemented through a national Ecotax Law. This law subjects beverage cartons to a 7Bfr /litre tax and cardboard to 10Bfr/kg. The 'FOST PLUS' scheme has been the manufacturers, retailers and distributors response, involving the collection and sorting of packaging from private households.

An alternative is for the 'supply loop' to review its use of packaging. Some foodstores already use returnable plastic crates for elements of their fresh food distribution. Extending their use could significantly reduce outer packaging waste. However this requires significant changes to packaging lines at manufacturing plants and washing and re-circulation of crates.

3.8.5 Employment

In-store labour has always been a major foodstore cost. The introduction of the Social Charter throughout the EU has further increased this. Even in the UK, which opted out, new legislation for part-time employees has increased costs.

The coincidence of rising labour costs due to legislation and demand for labour-intensive services by consumers will be a major issue.

3.9 COLLECTIVE IMPLICATIONS OF THE DRIVING FORCES

The drivers of change translate into a set of guiding beliefs for the next ten years and beyond:

- The factors which have made foodstores strong in the past will not be enough in the future. Operational efficiency and good locations, while remaining vital, will be necessary but not sufficient conditions for excellence.
- Faced with more choice, the factors that determine consumers' food shopping behaviours and choice of store will be more varied and complex.
- To generate real market growth, and to defend against other sectors, foodstores will need broad competitive and consumer horizons.
- Consumers will increasingly benchmark foodstores against the best standards of service they find anywhere from financial services to airlines.
- Customer loyalty cannot be relied upon given widespread dissatisfaction with food shopping (or aspects of it).
- Successful foodstores will have to find new and innovative ways to work 'to the customer's agenda'.
- It will get harder to sustain a broadly based mass customer appeal. 'Mass customisation' and being best suited to the needs of specific shopping occasions will be part of the response .
- The juxtaposition of new modes will challenge foodstores to redefine their 'right to exist' and their added value.
- The foodstore's traditional control over the communication and distribution link to the consumer will start to be threatened.

- Consumer expectations of foodstores will generally be along the lines of 'zero defects' and 'more for less', in terms of more; quality, value, convenience, transparency and responsibility. Consumers will be less willing to accept trade offs.
- As gate-keepers to European food supply, food retailers' ethics and broader socio-economic impacts will be increasingly scrutinised. Clear positions of enlightened self interest in all the major pressure areas, such as animal welfare and environmental damage, will be necessary.
- On standards of corporate behaviour, issue groups and networks, e.g. through the Internet, will exert pressure and publicise deviations from expected standards.
- Pressures on margins will be unrelenting.
- It will be a chaotic period to steer through – in many ways a transition period between old and new realities, in modes of shopping, in retail technologies, in social trends and in marketing philosophies.
- Successful foodstores will have to be more like electronics companies – planning for the obsolescence of what makes money today, taking calculated risks on the next set of waves to ride and reinventing organisation and processes on a near continuous basis.

3.10 THE KEY QUESTIONS THAT EMERGE

Looking at the drivers of change together, the 'future for the foodstore' debate can be reduced to two fundamental questions:

- *what inroads can new modes of foodshopping make and over what time scales?*
- *what must/can foodstore operators do to get close to the customer and maximise their competitiveness?*

These are addressed respectively by Chapters 4 and 5.

NEW MODES – MYTH AND REALITY



- 4.0 Introduction
- 4.1 New mode possibilities
- 4.2 Lessons from the trials and initiatives to date
- 4.3 Overview of the supporting and blocking forces for new modes
- 4.4 Consumer factors
- 4.5 Competitive factors
- 4.6 Economic factors
- 4.7 Balancing the supporting and blocking factors: development scenarios
- 4.8 Key requirements for foodstores to be prepared for the future

CHAPTER 4: NEW MODES – MYTH AND REALITY

"I am convinced that within a few years every household will have one or several flying machines"

H Ganswindt, helicopter pioneer 1891

"I think it is most unlikely that aeronautics will ever be able to exercise a decisive, influence in travel"

HG Wells, 1901

CHAPTER SYNOPSIS

- New modes are forms of shopping other than self service retail. New modes involve decoupling the fulfilment side of the shopping process from the information exchange process between consumer and retailer. This opens up a wide range of possibilities, not just delivery direct to home.
- The information exchange side of the equation is constantly stimulated by the exponential fall in computing costs whereas cost improvements cannot be as dramatic on the fulfilment side.
- A complex series of consumer, economic and competitive factors support and block the development of new modes.
- While the supporting factors will get relatively stronger, the blocking inertias will limit, probably to less than 5% by 2005, the proportion of the food market channelled through new modes.
- In particular, the economics of new modes will be very tight and it will be difficult to take out infrastructure cost.
- However, new modes will have a disproportionate competitive impact as the established rules of competition are challenged. For example, previously well defined stores in good locations will be vulnerable to targeted attack on their best customers.
- Foodstores need to take new modes seriously and develop a flexible and learning based long term approach.

4.0 INTRODUCTION

Opinion on the future of new modes of food shopping is as divided as that on air travel 100 years ago, ranging from:

the convinced

"we are at take off point"

Leading Industry Observer

to the cautious

"the concept remains beguiling, and might just deliver another retail revolution"

The Economist¹

to the doubtful

"home shopping in grocery will not be a big thing in my lifetime"

Leading European food retailer

However, as the Economist¹ puts it *"the idea is too influential for retailers simply to ignore"*.

This chapter examines the myths and realities of new modes under the following headings:

- 4.1 New mode possibilities.
- 4.2 Lessons from the trials and initiatives to date.
- 4.3 Overview of the supporting and blocking forces for new modes.
- 4.4 Consumer factors.
- 4.5 Competitive factors.
- 4.6 Economic factors.
- 4.7 Balancing the supporting and blocking forces: development scenarios.
- 4.8 Key requirements for foodstores to be prepared for the future.

The focus is on 1995 – 2005, but with an eye on the longer term.

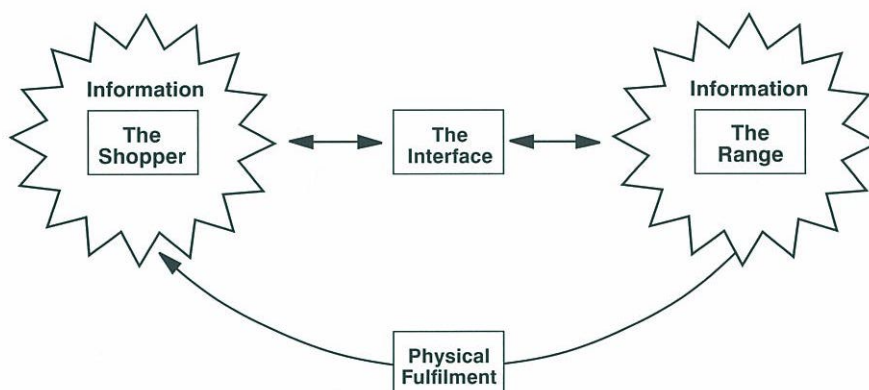
4.1 NEW MODE POSSIBILITIES

We define 'new modes' as forms of grocery shopping other than self service retail. This broad definition encompasses much more than the information superhighway and direct to home services as is shown below.

The food shopping process has two fundamentals:

- the information exchange process between the customer and retailer ('The Interface') which enables the retailer to understand consumer needs and wants;
- the physical fulfilment process of getting goods to where the customer wants them.

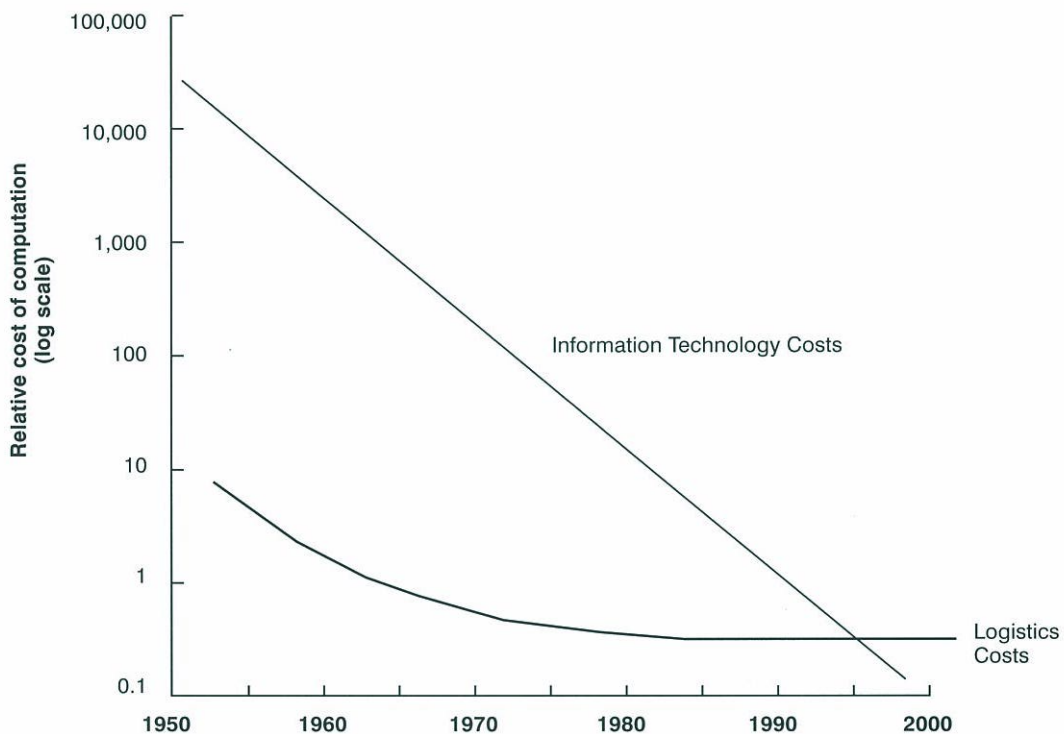
The Essential Elements of 'New Modes'



The critical point is that new modes are based on decoupling the fulfilment and information roles in different ways, whereas these roles are more or less fused together in a conventional foodstore.

Importantly, improvements in the information interface are ultimately driven by the exponential decline in computing costs, whereas physical fulfilment efficiency simply cannot be improved at this rate.

Moore's Law*: The exponential decline in information technology costs



*Gordon Moore a founder of Intel observed that computing costs halve approximately every three years

Sources: *Scientific American*
Coopers & Lybrand estimates for logistics costs

Had logistics efficiency kept pace with computing performance since 1950, it would now be possible to get a distribution vehicle from one end of Europe to the other in five minutes at a tenth of today's cost². The fundamental challenge for many new modes lies not in the information process but in the logistics process.

Nevertheless 'decoupling' opens up many options. The chart below illustrates broad possibilities based on different points for order and receipt.

New Mode Possibilities

| | | Receive at: | | | |
|-------------|--|-------------|-------------------------------|--|---------------------------------|
| | | Home | Office, Friends Home, etc. | Friends or Mobile Order / Collection Point | Food Store or Service Centre |
| Order from: | Home | ✓ | ✓ | ✓ | ✓ |
| | Office, Friends Home, etc. | ✓ | ✓ | ✓ | ✓ |
| | Kiosk | ✓ | ✓ | ✓ | ✓ |
| | Fixed or Mobile Order / Collection Point | ✓ | ✓ | ✓ | ✓ |
| | Food Store or Service Centre | ✓ | ✓ | ✓ | ✓ |

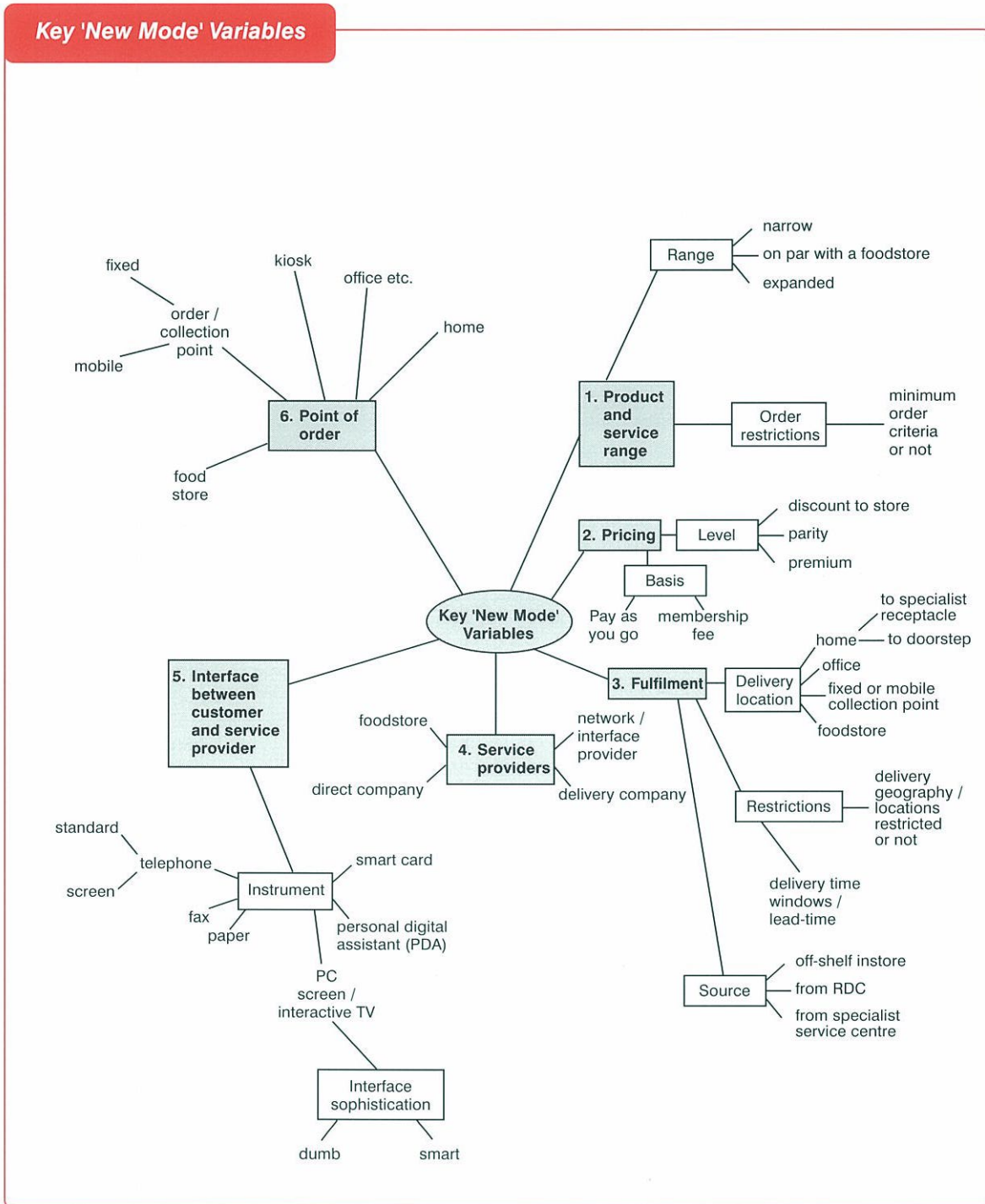
Key points about this diagram are:

- within each cell there are numerous possibilities, many of which are very simple;

"all you need is a man with a scanner and a catalogue and you have your own corner supermarket"
Martin Swerdlow, Cest
- new modes exist even in the 'store to store' cell, for example:
 - picking services where the store completes the order on behalf of the customer while she/he shops for high interest categories or has a coffee
 - drive-through and collect services.
- not all options are high tech or new. For example new versions of mobile stores might be efficient ways to serve so called 'retail deserts' such as less densely populated rural areas or inner city hot spots. The Institute of Grocery Distribution³ estimate that a third of the UK population do not have easy access to food shopping;

Over the last twenty years traditional 'new modes' such as specialist door to door delivery sales have generally been squeezed by self service foodstores (UK home milk deliveries are declining at around 10% per year⁴). Where they have held up, this has been due to service and quality. In some regions, delivery services are enjoying a low key revival based on service and convenience. Eismann Frozen Foods in Germany successfully offers 250 lines through a door to door service;

The complexity of what is possible is further illustrated by the diagram below showing some of the many variables that can generate 'new mode' permutations.



The diagram shows a mix of basic and sophisticated technology. The likely timings for the mass penetration of the main emerging access technologies are considered later in this chapter.

Looking to the future, multiple visions can be created from the variables, the three examples below illustrate different decouplings of the information and fulfilment roles.

Vision A:

The intelligent screen based service making 'anytime, anything, anywhere' a reality

It's 10.30pm. Madame Lamaur wants to sort out the week's food shopping. She turns on the interactive television and calls up Food Direct's estimate of what she will need next week. This is based on the computer's accumulated learning about the family's purchase patterns and analysis of when some products, e.g. coffee and toothpaste, will be running out.

70% of what the computer suggests is accepted instantly. This includes the choice of brand/private label. The computer knows in which categories Madame Lamaur is not brand loyal and has suggested the best offer available at the time from the repertoire of brands that it knows Madame Lamaur will consider of acceptable quality.

For the rest, Madame Lamaur first asks the computer to suggest a few quick chicken recipes that she has not tried before. The computer offers 3 solutions one of which Madame Lamaur accepts, asking for ingredients to serve four, including the suggested wine to accompany it. However she has not heard of the wine and calls up supporting information to tell her about its origin and characteristics.

Madame Lamaur then calls up the shampoo section of the electronic aisle. She has used one product for six months and wants a change. Madame Lamaur cruises the aisle for a few seconds and clicks onto a new product. She calls up product data as well as an independent consumer test report. This product only gets a moderate consumer rating on conditioning so she moves on and asks for a list of conditioning shampoos on special offer from which she selects one.

Madame Lamaur then confirms her overall order and asks for it to be delivered by 8.30am the next morning but not before 7.30am. The cost is debited to her bank account automatically.

The monitor prompts for telling Madame Lamaur about relevant new products and special dietary analysis, but it's 10.45 pm and she reckons that she has spent enough time shopping for one week.

The technology to do the above is here now, but it is not evident in the home and no one therefore offers the service. It will be 10-15 years before Vision A could be readily observable.

Vision B:

Smart card relationships revolutionising the instore experience

- The customer programmes a smart card with his/her order at home, at an in-store kiosk or at a remote bank kiosk.
- On entering the store, the customer swipes his/her card through a reader and the data is downloaded.
- Store employees then pick the order either from the shelves or a specialist storage area for staple goods (the store complex has been redesigned to optimise stock holding and use of space – less shelf space is given to staples). The order is sent to a customer pick-up point.
- The customer meanwhile either shops for high interest or look/feel categories e.g. meal solutions and vegetables (the store has been remerchandised to be more like a showroom for these categories) or spends time at the adjacent social/leisure facilities e.g. ranging from a swimming pool to cafes.
- The customer pays for the total set of purchases and the cost is debited to his/her nominated card account.

Vision C:**The ultimate mobile shop**

- This works as follows:
 - a core stock of 500 skus is carried and other ancillary services are offered e.g. postal services and lottery ticket sales;
 - over and above that, kiosk facilities provide access to a further 30,000 grocery skus and a suite of non-grocery catalogues. Orders are carried on the mobile store for the next visit or delivered direct.
- The service is designed principally for rural areas, but operates in towns and cities as well, running a tight weekly schedule.

4.2 LESSONS FROM THE TRIALS AND INITIATIVES TO DATE

A multitude of trials and initiatives are observable globally both in grocery home shopping and more broadly.

The main lessons and observations that can be drawn are:

- there is great uncertainty about exactly how the future will unfold despite the phenomenal global corporate momentum behind multimedia;
- US Interactive TV trials to date show the problems of high expectations;

| Selected Interactive TV Trials: The Problems | | | |
|---|-----------------------|---------------|-----------------------|
| Company | City | Homes* | Status |
| Bell Atlantic | Dover, New Jersey | 200 | Delayed |
| US West | Omaha, Nebraska | 40,000 | Delayed |
| Pacific Telesis | Milpitas, California | 1,000 | Cancelled |
| Time-Warner | Orlando, Florida | 4,000 | Delayed, now launched |
| Rochester Telephone | Rochester, New York | 100 | Shut down |
| GTE | San Diego, California | 300 | Scaled down |
| GTE and AT&T | Manassas, Virginia | 1,000 | Cancelled |
| TCI and Microsoft | Denver, Colorado | 300 | Cancelled |

*Planned by end of 1995 *Source: Campaign⁵*

- multimedia services have to be part of a bundle, albeit with potentially one or two so-called 'killer applications', but there is no definitive evidence yet as to exactly how the bundle will make money or to what extent services like 'video on demand' will be killer applications. However, home shopping is not seen as the most likely killer application;
- much emphasis is put on multimedia technology, but for food the key supply side factor is fulfilment. Food is low margin and bulky, so logistics are critical to the economics. Logistics will get more sophisticated, but there cannot be the same step changes in underlying costs as in computing;

- much of the pioneering interest in new forms of grocery home shopping comes from outside the food industry;
- the history of grocery home shopping to date is not entirely glorious. Many experiments have failed;
- the economics of direct to home in food are tight and seemingly no one is yet taking costs out;
- however, in the US home delivery is reasonably well established especially among operators of smaller chains (being offered in one way or another by about a third of operators, usually as an aspect of service). US data⁶ suggests that home delivery, not matched by the competition, can result in strong improvements in customer loyalty. There are also small scale European examples of where direct has met a real need:

"one local store manager with many weekend homes in the catchment mail-dropped all of them and offered to deliver a pre-ordered basket of groceries ready for the weekend. Sales increased by 50%"

Peter Ruzicka, Hakon, Norway

- for any screen based service, the usability and simplicity of the interface is paramount. *"It has to be three clicks, one second, no handbooks; or it is no good to the consumer."*⁷
- in this respect much of the current technology is limited;
- there are many ways into the 'new mode' market, but the main entry options in the near term are as shown below:

Routes into new modes

| Route | Description | Examples |
|--|--|--|
| 1 Focusing on a single high margin category and delivering direct | Limited direct to home service in a single, usually high margin category | Tesco flowers direct Eismann Frozen Foods Drinks Direct Sainsbury wine direct |
| 2 Focusing on a single staple category and delivering direct | Direct delivery service based on a frequently purchased staple | Milk deliveries in UK Water deliveries in Italy |
| 3 Acting as a surrogate shopper and delivering direct | The customer orders remotely but the goods are picked off standard supermarket shelves by the company providing the service. The consumer pays for the on cost of delivery | Peapod in the USA |
| 4 Offering a pick up service to take the main hassle out of chore or staple shopping | Cost of direct delivery is not incurred as the consumer picks the goods up from the store Order can be based around a core range that the consumer buys weekly (although as many shoppers have repertoires rather than being 100% brand loyal and have variable consumption rates this will involve some change in habit) | Drive in restaurants are a model Some specialist food and drink stores accept telephone or faxed orders for collection Could be as simple as handing in a written order form on arrival at the store |
| 5 Kiosk services based on 1-4 above | The kiosk primarily helps people who do not have the equipment or on-line linkages at home | Kiosks in airports (but nb, Heathrow kiosks have now been closed) Thomas Cook Comet |

4.3 OVERVIEW OF THE SUPPORTING AND BLOCKING FORCES FOR NEW MODES

The scale and pattern of development of new modes depends on the interplay of the complex set of supporting and blocking forces shown below:

| | Supporting Forces | Blocking Forces |
|----------------------------|--|---|
| Consumer Factors | <ul style="list-style-type: none"> ● The major consumer negatives of the current food shopping process, underwrite the need for breakthrough new benefits which save time and eliminate hassle. ● The genuine positives of new modes, for example in saving travel time which is particularly important for the third or so of the European population that are 'time poor'. ● Improvements over time in the quality and penetration of the facilitating consumer technology as part of the global multi-media revolution. ● Consumers becoming more literate and enthusiastic about alternative channels and electronic access across many markets. | <ul style="list-style-type: none"> ● Consumer inertia, which in an activity as universal and well 'grooved' as food shopping will be massive. ● The inherent consumer negatives involved in many new modes of food shopping, for example the impossibility of seeing, feeling, and smelling fruit that is ordered remotely and the likely difficulty for many consumers in cruising easily around thousands of SKUs (stock keeping units) on a screen. ● Existing foodstore's natural positives such as the degree of control offered by self service and the 'people watching' or social benefit. |
| Competitive Factors | <ul style="list-style-type: none"> ● Competitors probing the opportunity and creating a psychology around the need to look at it seriously. ● The overriding momentum of the multimedia revolution. | <ul style="list-style-type: none"> ● Lack of pioneering interest from existing players with a perceived vested commitment to the existing business system. ● The ability of existing foodstores to fight back, for example by making the store shopping process easier and faster. |
| Economic Factors | <ul style="list-style-type: none"> ● The economics of new modes that work (on paper) for some of the market and will get more advantageous. ● The prospect of scale economies. | <ul style="list-style-type: none"> ● The economics of new modes that limit the percentage of the market that is 'direct possible'. By 2005 the economic upper limit on the 'direct possible' market in Europe might be around 30% (and obviously actual penetration will be substantially less due to the other blocking factors). ● The economic 'breakpoint' involved in getting a system up and running beyond minimum critical mass |

These consumer, competitive and economic factors are examined below:

4.4 CONSUMER FACTORS

Supporting new modes: *the major consumer negatives of the current food shopping process and the genuine positives of new modes*

Chapter 3 highlighted that much grocery shopping is a chore. Given that "drudgery is the natural target of technology"⁸, there is a major prize for foodstores that can eliminate the need for so many food shopping trips, reduce the time cost per trip and reduce the hassle of the process.

If location is key then the home is the ultimate location.

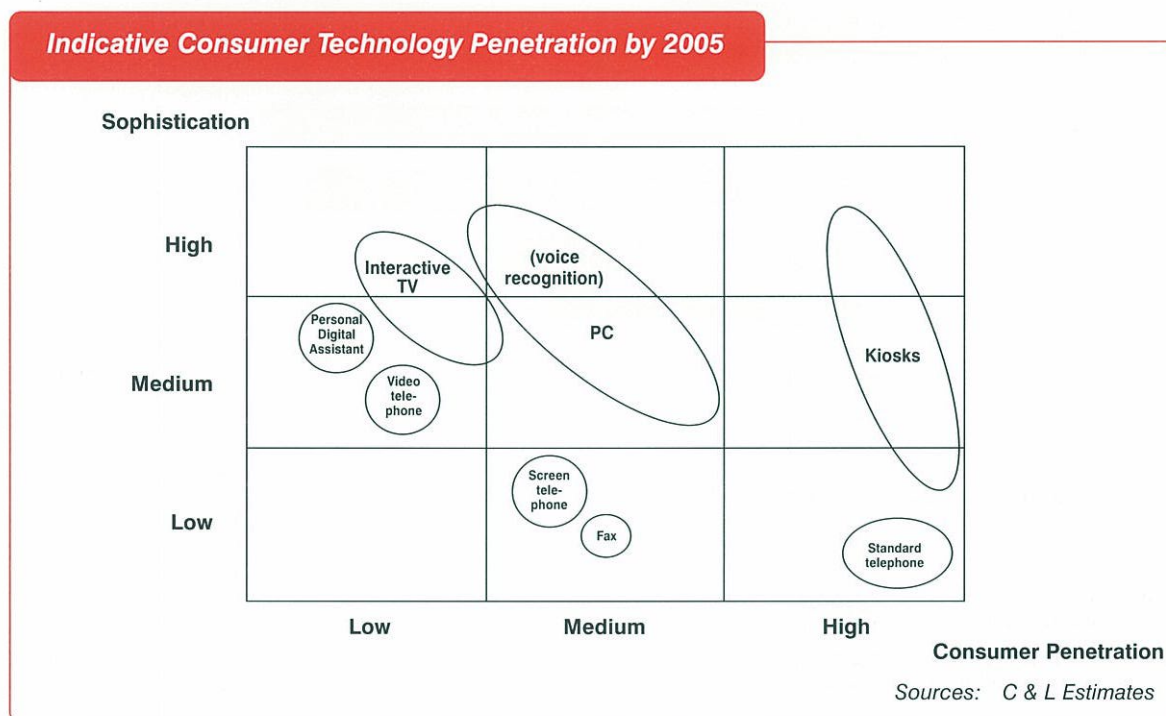
New modes also offer new added value benefits, e.g.: clear understanding of individual needs, new services and wider choice and more information and decision support.

Supporting new modes: *improvements over time in the quality and penetration of the facilitating consumer technology*

Currently there is a clear distinction between the so called 'have Nets' and 'have nots'. The 'have nots' are in the dominant majority. For illustration, Internet hosts per thousand in 1995 ranged from less than 2 in Italy and Spain, under 4 in France, Belgium and Germany, under 5 in the UK and Austria to 6 in the Netherlands. (The US figure is 13⁹). Furthermore, the 'have Nets' are strongly biased away from core grocery shoppers. In a 1995 CompuServe survey only 17% of users were female and 57% had no children. Over 90% of Internet users are men.

The 'have Nets' will grow, but slowly from a low base. Inteco¹⁰ forecast that by 1998, 9.1% of UK homes for example will have an on-line connection. However, in the longer run, the exponential fall in computing costs makes possible a situation in which electronics access is no longer the privilege of the elite. As the 'Nintendo generation' grows up, basic familiarity with electronic access will be second nature to most. However even games usage among young people is heavily male orientated.

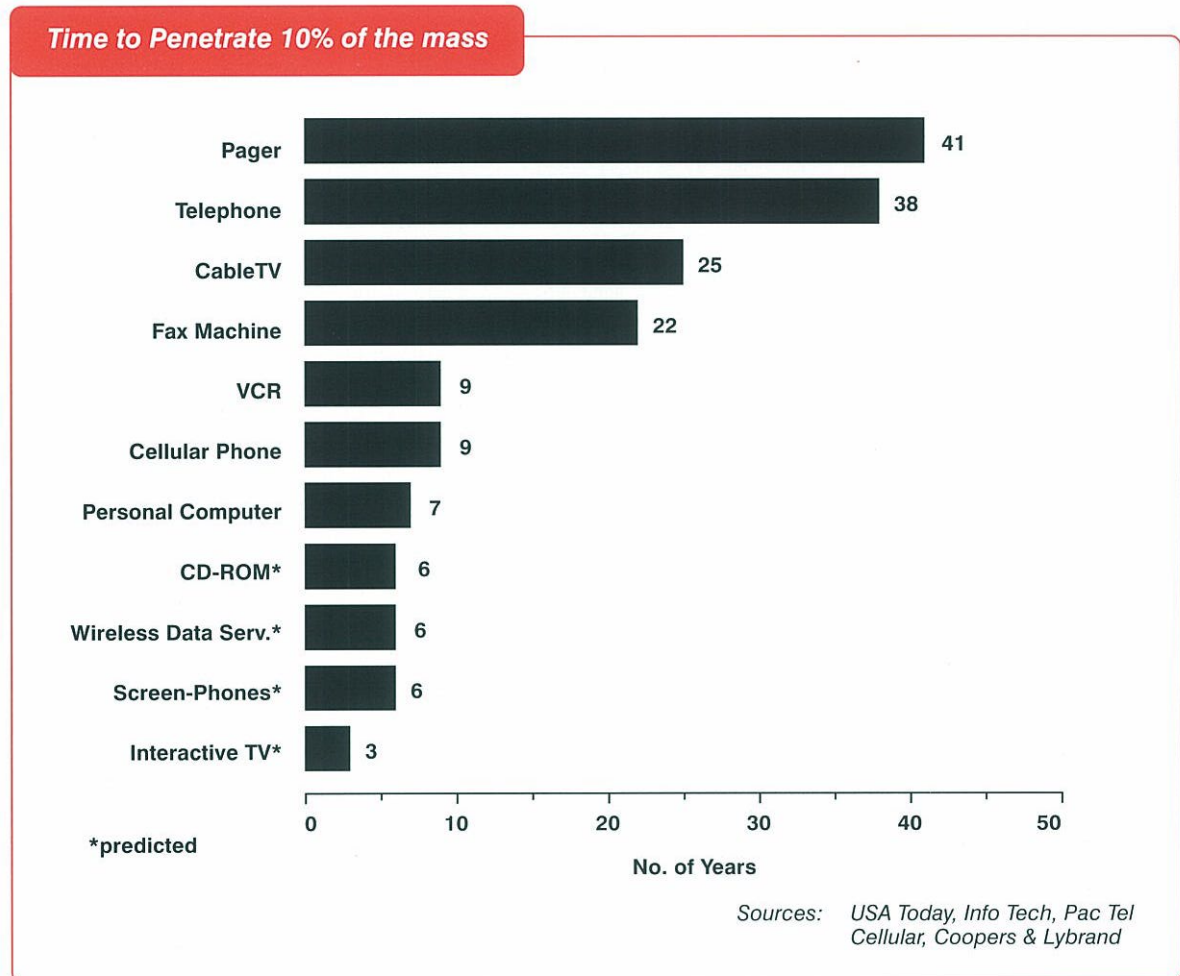
There are many options for the consumer-foodstore interface. Interface sophistication and consumer penetration tend to be inversely related as the diagram below shows.



Key points to note from the above diagram are:

- kiosks provide interface sophistication without consumers having to buy the technology;
- voice recognition and synthesis will increase as the natural means of interaction within the PC;
- screen telephones offer a low cost way in the next ten years to get screens into homes;
- dumb devices such as the fax and telephone should not be neglected (foodstores are in any event relatively poor at making use of the telephone as a communication and customer satisfaction tool as a recent Henley Centre/BT Teleculture study has shown);
- physical convergence of the PC, television and phone are predicted, but it is likely that these devices will remain standalone for some time, albeit made smarter by set top boxes etc;
- penetration of interactive television will be restricted by the extent of domestic broad band linkages.

Major shifts in consumer behaviour that depend on the penetration of new consumer technology take considerable time to work through. (The key accelerator is falling costs.) However the diagram below suggests that the time taken for new consumer technologies to break through is reducing.



Furthermore, in kick-starting interactive television services, for example, service providers may well give away the required set-top boxes.

Supporting new modes: *consumers becoming more literate and enthusiastic about alternative channels*

Consumer literacy and enthusiasm with direct distribution channels is increasing as evidenced by growth in homeshopping, direct financial services; Minitel usage in France, ATM usage; telephone shopping and 0800 numbers etc.

Blocking new modes: *consumer inertia*

"The difficulty lies not in the new ideas, but in escaping from the old ones" John Maynard Keynes

Food shopping behaviour is deeply rooted. As one reviewer of on-line direct delivery food shopping has said:

"It seems terribly dehumanising. It would put an end to thousands of years of human history in which food has been gathered in a real market place filled with people."

Evan Schwartz, Wired Magazine¹¹

Furthermore, the widespread adoption of screen or television based shopping requires significant social change. People will need to be comfortable with using the television as more than a passive device. Shopping through the screen will potentially get in the way of conventional group viewing and use of living spaces.

The net effect is that radical change in how the majority shop for food is unlikely in the near term. However, even modest annual percentage change can effect a near revolution within 20 years.

Blocking new modes: *the inherent consumer negatives involved in many new modes of food shopping*

There are a series of potential consumer concerns summarised in the table below and expanded upon in Appendix E.

| POTENTIAL CONSUMER CONCERNS WITH DIRECT FOOD SHOPPING | |
|---|--|
| <ul style="list-style-type: none"> ● The difficulty of easily 'surfing' around thousands of skus on a screen and efficiently executing an order. ● The possible lack of enjoyment of screen based shopping. ● The loss of the social, leisure, people watching and people contact side of shopping. ● The inability to directly see, feel, touch, and smell products. ● The inability to judge the right quantity to order without direct visual contact. ● Loss of control in choosing fruit and vegetables in the best condition and of the desired grade. ● The loss of control over choosing sell by dates, special offer packs etc. ● The loss of the impulse purchase opportunity. ● The concern about getting the best offers and prices. ● The difficulty in using coupons etc. | <ul style="list-style-type: none"> ● Concern about goods being bruised or damaged in transit. ● Loss of personal contact with the foodstore. ● The inability to make alternative choices if something is not in stock. ● Concern about the integrity of chilled and frozen products in delivery. ● The risk of getting out of touch with what's new and what other people seem to be buying. ● The uncertainty of knowing when goods will be delivered, and the dislike of the waiting time involved. ● The difficulty of receiving goods when no one is in – "how do you get a frozen chicken through a letter box?" ● The question of returns and queries and checking that what was ordered has been delivered. ● The potentially more complicated means of paying securely. |

These issues or negatives are of two types:

- intrinsic long standing negatives, e.g. the lack of direct social interaction on a screen; and
- factors which will erode over time and that can be minimised by a well designed system, e.g. ease of use.

The key point is that most of the factors will or are likely to erode over time, and that they will vary by consumer and occasion.

Blocking new modes: *existing foodstores natural positives and the ability of foodstores to fight back*

Compared to direct shopping the foodstore has some natural advantages and a substantial related capacity to fight back (see Chapter 5). If we only had electronic home shopping and someone then invented stores, people would no doubt be highly excited, given.

- the total experience, “the screens are bigger in a real supermarket”;
- the ability to employ sight, touch, taste and smell;
- the social and leisure benefit;
- the level of consumer control.

Chapter 5 amplifies how these positives must be made to work hard.

The simplicity of foodstores is also important. New systems often fail as they underestimate the complexity of mundane tasks or because they confuse users with too much functionality. Early electronic shopping services could introduce excess or inappropriate sophistication. (Some early versions of supermarkets fell into the same pitfall; an experiment with the product range moving around on a conveyor belt past a seated consumer was soon abandoned).

4.5 COMPETITIVE FACTORS

Supporting new modes: *competitors probing the opportunity and the overriding momentum of the multimedia revolution*

New modes of home shopping are shaping up as a ‘honey pot’.

- the vision is exciting and there is not yet too much cold reality to get in the way;
- glittering prizes are on offer for all sorts of participants;
- there is a pervading sense of ‘we must be looking at this’.

The schedule of trials and initiatives gets longer every month. The psychology is being created that direct shopping will happen, it’s just a question of when. This has a self-reinforcing impact. Observation affects the outcome.

The crunch will come if some of the main experiments fail raising the question of whether the problem was timing, execution or a fundamental lack of consumer interest.

“We are entering the mania phase. Just as many uneconomic lines were put down at the start of the Railway Age, so no doubt will many uneconomic electronic shopping services be laid down at the start of the Information Age”.

Neil Whitehead, Fitch (Design Company)

“The trials will mostly be poor because they are the first versions, but there will be some glimmers and insights that will make the next ones better.”

Nathan Myhrvold, Microsoft¹²

Blocking new modes: *lack of serious pioneering interest from existing players*

Foodstores might hold back on new modes for various reasons:

- they perceive a lack of consumer interest;
- they see the economics as marginal or unattractive and therefore take a cautious approach;
- uncertainty and an absence of the required competencies results in a decision to put the issue "on hold";
- they see new modes as a threat to their greatest assets (stores and their locations).

The last reason if adopted would be largely self-fulfilling (if new modes are going to take off then foodstores have to restructure and redefine their assets to compete on the new battleground and not cling to the old one).

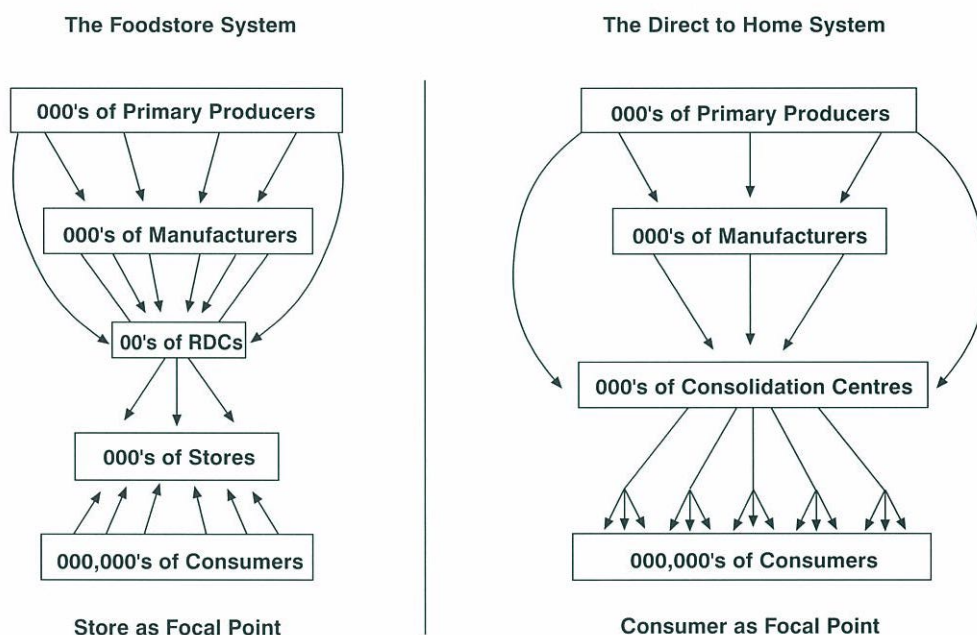
Paradoxically, the strongest foodstore operators, on many dimensions, are well placed to succeed in new modes. They have the consumer credibility, the best supply chain and the funds to invest. Furthermore, providers of the early interactive home shopping services will be keen to sign-up leading foodstores as flagship partners.

4.6 ECONOMIC FACTORS

This section looks at the extent to which the economics support or block the development of new modes by comparing the operating costs of a range of new modes of food shopping with those of a standardised large foodstore. The analysis gives an approximate indication, on an 'all things being equal' basis, of the viability of new modes.

Behind this evaluation is the question, "is there a better (more economic) system to get food to consumers than the food store?"

Which is theoretically more efficient?



Reasons to believe there might be a more economic way follow from the inherent inefficiencies of the foodstore system:

- consumers make individual trips to and from stores with no real scale economies across consumer trips;
- consumers physically navigate around 10,000 – 20,000 SKUs to find the 30 – 50 they want to buy;
- consumers pick products off shelves just after the foodstore has spent a lot of money putting them there (detailed costing studies show that shelf stacking is a surprisingly high proportion of operating cost);
- the consumer then unpacks the goods at the check-out, repacks them, unloads them into the car, then out of the car and then unpacks again in the home;
- each store holds stock of every item that might be demanded even though a pareto curve applies on cumulative volume. In a typical store 80% of volume might come from 30% of SKUs;
- consumers can only buy food at fixed times at fixed locations.

Cost comparison new modes v conventional foodstore

The analysis below is based on standard costings from Coopers & Lybrand's Value Chain Analysis work in the grocery sector and industry benchmark data.

The analysis compares the costs of standardised larger European foodstore with:

- a store order / store pick-up service, whereby product is picked off shelves for consumers;
- a remote order / home delivery service;
- a remote order / remote delivery service (to a pick-up point).

Comparative format economics

Cost of Operations as a % of sales

| Retail Process | Store | Store Order / Store Pick-up | Remote Order / Home Deliver | Remote Order / Remote Delivery |
|---|---------------|--------------------------------|--------------------------------|-----------------------------------|
| | A | B | C | D |
| Create / Stimulate Demand | 1.4 | 1.4 | 1.4 | 1.4 |
| Introduce Product | 0.1 | 0.1 | 0.1 | 0.1 |
| Merchandise Product | 7.6 | 7.6 | 0.1 | 0.1 |
| Promote Product | 0.1 | 0.1 | 0.1 | 0.1 |
| Receive / Process Orders | 0 | 0.1 | 0.1 | 0.1 |
| Pick and Hold Order | 1 | 12 | 12 | 12 |
| Replenish Products | 7.2 | 7.2 | 3.4 | 3.4 |
| Deliver Products | 0 | 0 | 11 | 4.2 |
| Support Enterprise | 4 | 4 | 4 | 4 |
| Cost of Operations as a % of Sales Total | 20.4% | 32.5% | 32.2% | 25.4% |
| Total for \$ 40 basket | \$ 8.2 | \$ 13 | \$ 12.9 | \$ 10.2 |

Net profit and loss

| | Store | Store order / Store Pick-up | Remote Order / Home Deliver | Remote Order / Remote Delivery |
|--------------------|-------|--------------------------------|--------------------------------|-----------------------------------|
| Sales 100 | | | | |
| Purchased Goods | 76 | 76 | 76 | 76 |
| Cost of Operations | 20.4 | 32.5 | 32.2 | 25.4 |
| Net Profit | 3.6 | | | |
| Net Loss | | 8.5 | 8.2 | 1.4 |

The broad cost comparisons are shown on the previous page. Key assumptions are shown below.

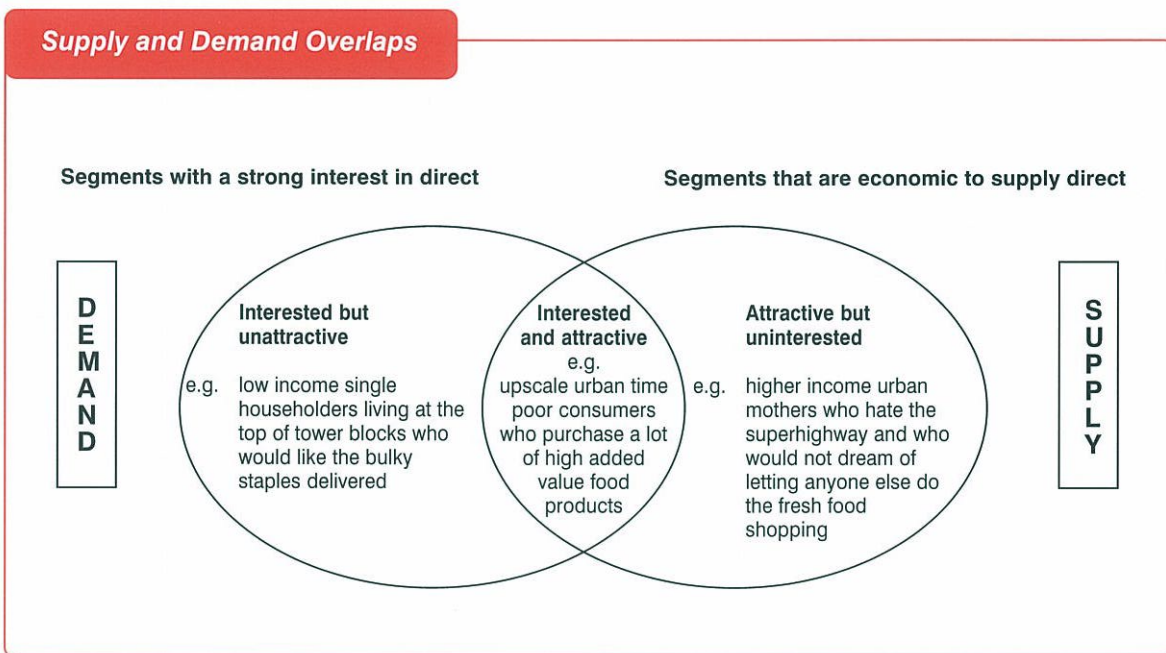
| Mode | Assumptions | Notes |
|---------------------------------|--|--|
| Store | <ul style="list-style-type: none"> ● \$40 average basket ● Standard retailer owned and operated store utilising centralised distribution | <ul style="list-style-type: none"> ● Cost of store included in merchandising costs ● Corporate promotion costs included in enterprise costs ● Replenishment costs are full activity costs and therefore include all activities related to the replenishment of products to employees e.g. store employees shelf filling costs |
| Store order Store pick up | <ul style="list-style-type: none"> ● \$40 average basket ● Pick-up system based on an existing store facility ● Orders received and processed in store ● Specialist pickers pick from store ● Orders picked and held for collection | <ul style="list-style-type: none"> ● Sensitive to utilisation rate and day, part order and pick up density. Peaks and/or high use would have knock on employee cost implications |
| Remote order Home delivery | <ul style="list-style-type: none"> ● \$40 average basket ● Picking of orders from a dedicated facility using trained staff ● Picking costs include the costs of quasi-merchandising needed to allow single item order picking ● Delivery assumes an average drop time of five minutes to allow for customer service ● Assumes 40 drops per day evenly spread geographically ● Central distribution centre shipment to picking centre with delivery in 1.5 tonne payload vehicles to home | <ul style="list-style-type: none"> ● The analysis is highly sensitive to drop density, size of basket and the level of service/other customer related contact e.g. couponing, new product information |
| Remote order Remote delivery | <ul style="list-style-type: none"> ● \$40 average basket ● Picking of orders from a dedicated facility using trained staff ● Picking costs include the costs of quasi-merchandising needed to allow single item order picking ● Customer pick up from collection point which allows for high drop density utilising e.g. 7.5t truck dropping around 200 'baskets' at a time ● Assumes joint venture pick up location with no significant overhead cost to the retailer | <ul style="list-style-type: none"> ● Highly sensitive to utilisation rate – low usage limits the ability to maximise drop density |

Key points about the analysis are:

- *direct delivery services carry a substantial extra cost compared to a store operation.* Savings on merchandising and replenishment are heavily outweighed by the cost of order picking and delivery. The cost of receiving/processing orders is secondary (although for some situations the foodstore may have to pay a commission to a third party);
- *delivery cost is very sensitive to drop rate* (which is governed by factors such as van size and drop density per time window). 40 drops per day have been assumed. However, the conditions under which this could be significantly bettered are quite stringent. In the longer term critical mass can also be achieved potentially by sharing delivery costs across types of consumer supplier (food and non-food). However many practical problems inhibit this development;
- *delivery to a remote pick up point rather than the home significantly reduces delivery cost*, but still the costs of such a service are approximately 25% higher than for a conventional store. This equates to an extra cost of \$2 on a \$40 shopping basket;
- *cost and time benefits to the consumer are not quantified.* Consumers save time, hassle and travel costs with each new mode option. However, customers will value their time and the ease of life benefit differently. Currently few are aware of the economic cost of, in particular, car travel to stores. Ultimately the key will be the extent to which consumers are prepared either to pay a premium to gain the benefits or instead to increase their loyalty to a particular food supplier.

These observations lead to the following conclusions:

- the 'like for like' economics of new modes are very tight;
- only a limited part of the market will be economic for new modes and this will be defined by where it is possible to:
 - focus services where stringent conditions for “local critical mass” apply, for example high order values, high drop densities, high margin categories and ambient categories;
 - charge the consumer to cover incremental costs.
- prospective direct service operators need to identify consumer segments where there is a 'golden overlap', i.e., segments with a high interest in new modes that are also economically attractive to supply.



Paradoxically many segments with a high intrinsic interest in direct will be uneconomic to serve.

If consumers are asked to pay a premium for direct, the market will tend to be restricted towards those who are 'time poor' or immobile but with 'money enough'. But again, those who are 'time poor' will often be difficult to serve as they tend to be at home less to receive deliveries.

Based on these considerations alone, we estimate the absolute maximum “direct possible” market by 2005 to be in the order of 30%. Of course, the reality will be substantially less.

The market level danger of new modes is that substantial capacity and cost is added with neither demand being expanded nor existing infrastructure cost being taken out. This danger is serious because the economics of foodstore capacity are highly sensitive to volume.

4.7 BALANCING THE BLOCKING AND SUPPORTING FACTORS: DEVELOPMENT SCENARIOS

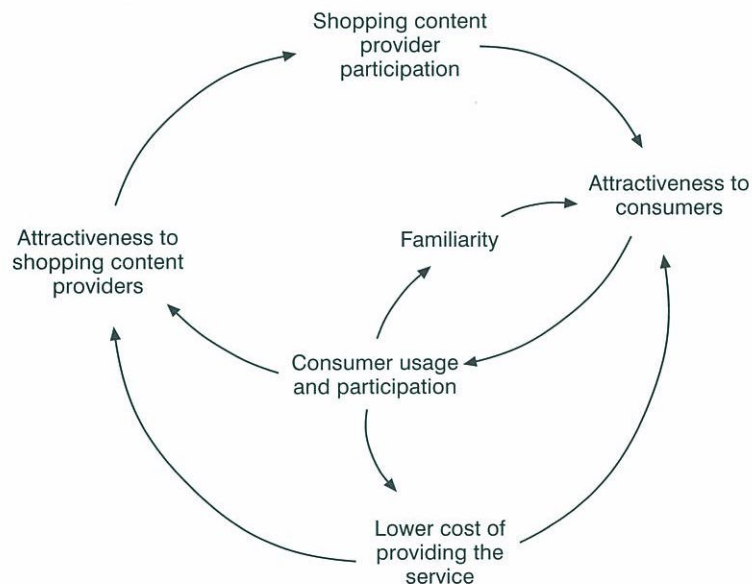
This section looks at take-off scenarios for the development of new modes and the conditions that would result in each scenario occurring. It is structured as follows:

- 4.7.1 Overview of the blocking and supporting factors.
- 4.7.2 Development scenarios.
- 4.7.3 Composition of new modes.

4.7.1 Overview of the blocking and supporting factors

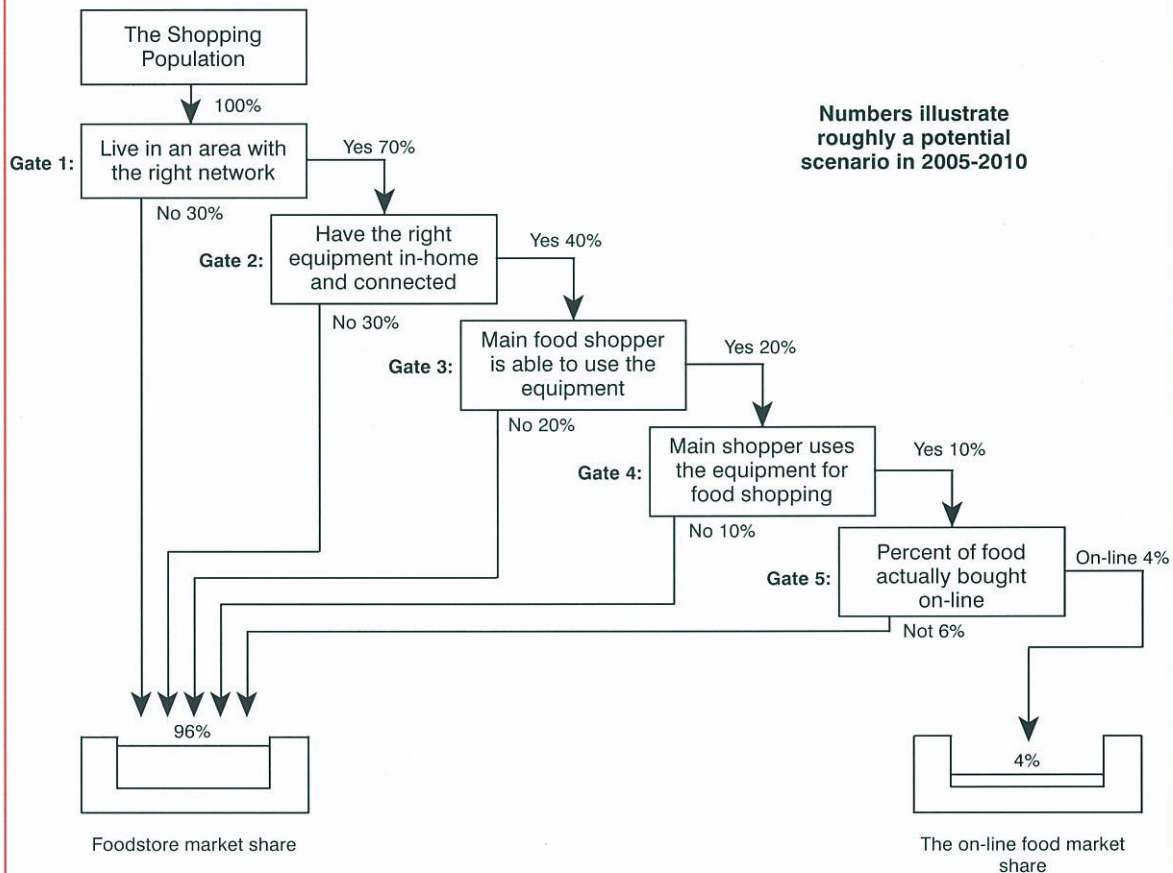
The weight of the blocking forces including their economics is such that new modes will not take off instantly or explosively but, over time, the supporting forces will strengthen and the blocking forces diminish in a self reinforcing manner.

The virtuous spiral in the development of new modes

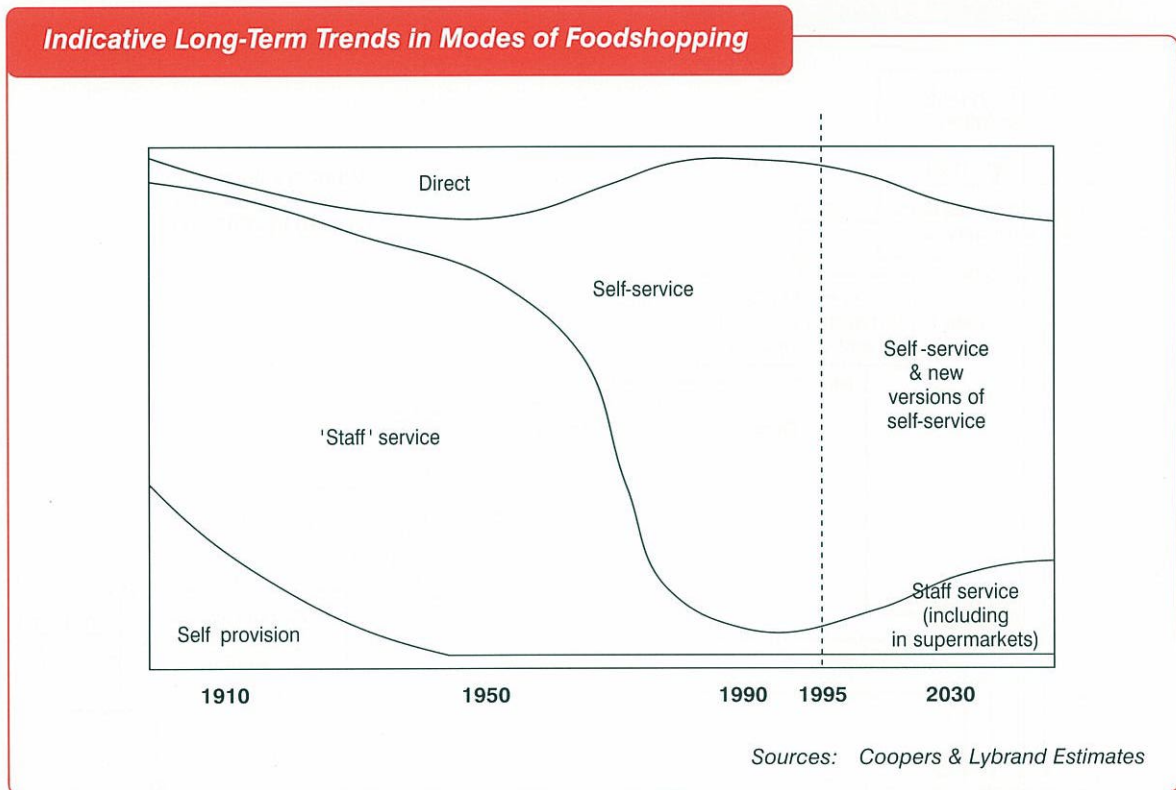


For the full vision of on-line direct to take market share, a series of 'gates' must be open as illustrated below. Leakages at each gate cumulatively limit the proportion of the market that goes on-line direct.

Many 'gates' have to open before an on-line food sale is made



The diagram below is a stylised longer term perspective on modes of food shopping. It shows that there is an element of 'back to the future' in the prospective growth of new modes as many new modes are reincarnations of 'old modes' e.g. direct delivery.

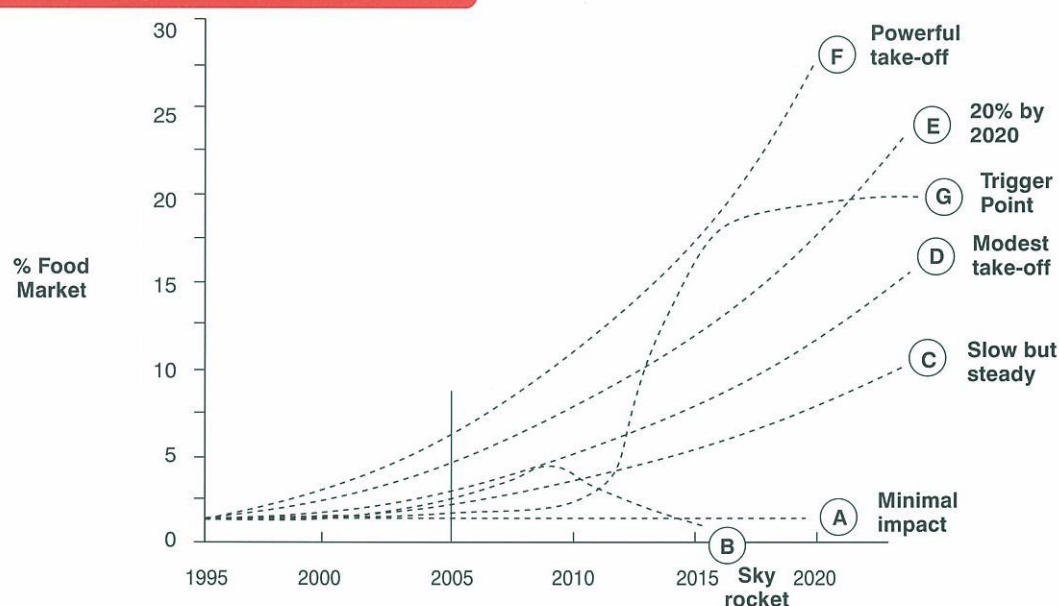


4.7.2 Development scenarios

Based on the preceding analysis of blocking and supporting factors we believe that:

- by 2005, the proportion of the European grocery market channelled through new modes will be relatively small, probably less than 5% with the emphasis being on 'known specification items' (KSIs);
- projections of 20% – 30% penetration by 2005 are too high;
- while the trajectory of new modes share after 2005 is much more difficult to forecast, new modes are likely to be on a rising curve that we believe might reach 15% – 20% by 2020. At some stage soon thereafter, the curve will possibly start to flatten.

Take off Scenarios for New Modes



New mode take-off scenarios

| Scenario | Likelihood | Conditions | | Signposts |
|---------------------|-----------------------|---|--|--|
| | | Supply side | Demand side | |
| A Minimal impact | Possible but unlikely | <ul style="list-style-type: none"> ● Lots of small trials but no major initiatives ● Economics cannot be made to work well enough | <ul style="list-style-type: none"> ● Consumers get a negative impression ● Consumers are not prepared to pay | <ul style="list-style-type: none"> ● Negative public statements from industry opinion formers ● Failure of trials |
| B Sky rocket | Possible but unlikely | <ul style="list-style-type: none"> ● A lot of pioneering effort ● But, doubts set in when highest expectations are not met | <ul style="list-style-type: none"> ● Consumers try direct services but revert back to old habits | <ul style="list-style-type: none"> ● Adverse press coverage ● Uptake of the consumer technology plateau's early |
| C Slow but steady | Possible | <ul style="list-style-type: none"> ● Lots of small/medium initiatives ● Main players take a cautious long term approach ● It is not possible to make wholesale changes to industry infrastructure ● But costs/economics improve over time | <ul style="list-style-type: none"> ● Consumer inertia takes time to break down ● But growing segment tries direct and sticks with it | <ul style="list-style-type: none"> ● Trials report success ● Consumer technology penetration increases steadily |
| D Modest take off | Central scenario | <ul style="list-style-type: none"> ● More accelerated version of scenario (C) | <ul style="list-style-type: none"> ● More accelerated version of scenario (C) | <ul style="list-style-type: none"> ● More accelerated version of scenario (C) |
| E 20% by 2020 | Possible | <ul style="list-style-type: none"> ● Concerted and sustained development ● Competitively direct becomes a major issue ● Critical breakpoints on costs and economics are reached ● Broad band links achieve high penetration | <ul style="list-style-type: none"> ● Consumer interest and technology penetration on a rising curve ● Direct establishes strong reputation | <ul style="list-style-type: none"> ● Major marketing programmes ● High sales of good value interactive TVs etc ● Broad band penetration |
| F Powerful take-off | Unlikely | <ul style="list-style-type: none"> ● More accelerated version of scenario (E) | <ul style="list-style-type: none"> ● More accelerated version of scenario (E) | <ul style="list-style-type: none"> ● More accelerated version of scenario (E) |
| G Trigger point | Possible | <ul style="list-style-type: none"> ● Trigger point in critical mass is reached where unit costs fall substantially | <ul style="list-style-type: none"> ● Lower unit cost triggers large increase in demand | <ul style="list-style-type: none"> ● Alliances between retailers/delivery companies to reap scale economies |

Our reading of the available evidence is that “modest take off” is the most likely scenario. This reflects the view that the underlying long term consumer and competitive logic is there for new modes but the economic, technical and consumer inertias are massive.

4.7.3 Composition of new modes

No one new mode is likely to dominate. The likely outcome is a mix of different services representing differing degrees of departure from conventional self service. We expect the most prominent types of service to be those featured in the table in section 4.2 of this chapter.

‘Known specification items’ or KSIs are clearly the most suitable for new modes. However this definition includes high interest wants such as spirits, as well as core staples such as tissue paper.

4.8 KEY REQUIREMENTS FOR FOODSTORES TO BE PREPARED FOR THE FUTURE

Whatever the precise development of new modes, key implications for foodstores are:

- 4.8.1 The issue is critical, but a long run perspective is vital.
- 4.8.2 Flexibility and learning must be the touchstones of a foodstore’s approach.
- 4.8.3 The winners and losers are not preordained – there are major threats and opportunities that foodstores need to understand and act on.
- 4.8.4 There are many valid competitive routes forward.
- 4.8.5 PR and branding are critical.
- 4.8.6 New modes are not simply another form of distribution capacity.
- 4.8.7 Individual foodstore operators will not be able to take out significant infrastructure costs as a result of new modes before 2005.
- 4.8.8 New modes must be integrated into how the foodstore itself evolves.
- 4.8.9 New modes could provide the variables to radically transform a foodstore business.

4.8.1 The issue is critical, but a long run perspective is vital

The relatively low likely penetration (less than 5%) of new modes by 2005 disguises the long run competitive importance of the changes taking place. A percentage point of the European food market is worth approximately \$6bn¹³, equivalent to the turnover of 100 – 150 superstores. The foodstore industry’s investment perspective must be geared accordingly.

Over 20 – 30 years plus, there is little doubt that the multimedia and information revolution will have fundamental relevance to foodstores and their customers, as it will in every sphere of human life.

“The change we are about to witness will overshadow the impact of the printed word, the industrial revolution and physical transport”

Peter Cochrane, BT Laboratories¹⁴

"Put subtly, multimedia will develop to have the most 'in your face' impact of any channel or interface".
Chris Macrae, author "World Class Brands"

As a senior manager in the multimedia industry is reported to have said: *"Nature's already signed off on all this stuff"*.

Multimedia is the type of change where almost as a law its speed of arrival is systematically overestimated, but whose ultimate impact is systematically underestimated.

In a historical context, 1996 – 2005 will be a transition period as the supply and demand sides of the information revolution start to seriously co-evolve. In 1996 we are a long way off seeing the full possibilities:

"the Internet today is an information cobbled street not a superhighway"
Nick Higham, BBC media correspondent¹⁵

4.8.2 Flexibility and learning must be the touchstones of a foodstore's approach

By 'learning' we mean:

- the ability to draw out the lessons of all the trials and experiments conducted globally;
- development of multimedia skills and a deep understanding of the multimedia revolution;
- deeper understanding of the underlying needs of the store's own customer base, through research or more powerfully through trials and experiments even if there are uncertainties;

"Nothing will be attempted if all possible objections must be first overcome."

Dr Johnson

- development of the skills in database management, logistics etc. that are critical to a successful direct service;
- dialogue with prospective partners to explore the logic of different alliances (remembering that the ultimate threat is to lose control over the customer link).

Looking broadly, flexibility and learning are critical, as no one can comprehensively define the progress of multimedia;

"The biggest unknown is consumer reaction. Nobody knows what people will buy or what they will pay for it. At this point, knowing that would be like knowing about 900 numbers back when phones were invented or knowing about Home Shopping Network at the dawn of TV."

Kevin Maney¹⁶

For a foodstore looking at on-line services in the next few years there will be various options including interactive TV trials, pages on the WorldWide Web, e-mail links and working with one of the on-line service providers, e.g. Compuserve or the Microsoft Network.

In principle, foodstores should talk to all the emerging service providers. It is not clear who, if anyone, will be the clear leader and the best deals will most likely be available in the early stages when service providers are keen to get a critical mass of content. Foodstores will also generally want to ensure their on-line offer has the widest availability to spread cost and maximise consumer reach (unless an exclusivity deal offered by a service provider were exceptionally attractive).

4.8.3 The winners and losers are not preordained – there are major threats and opportunities that foodstores need to understand and act on

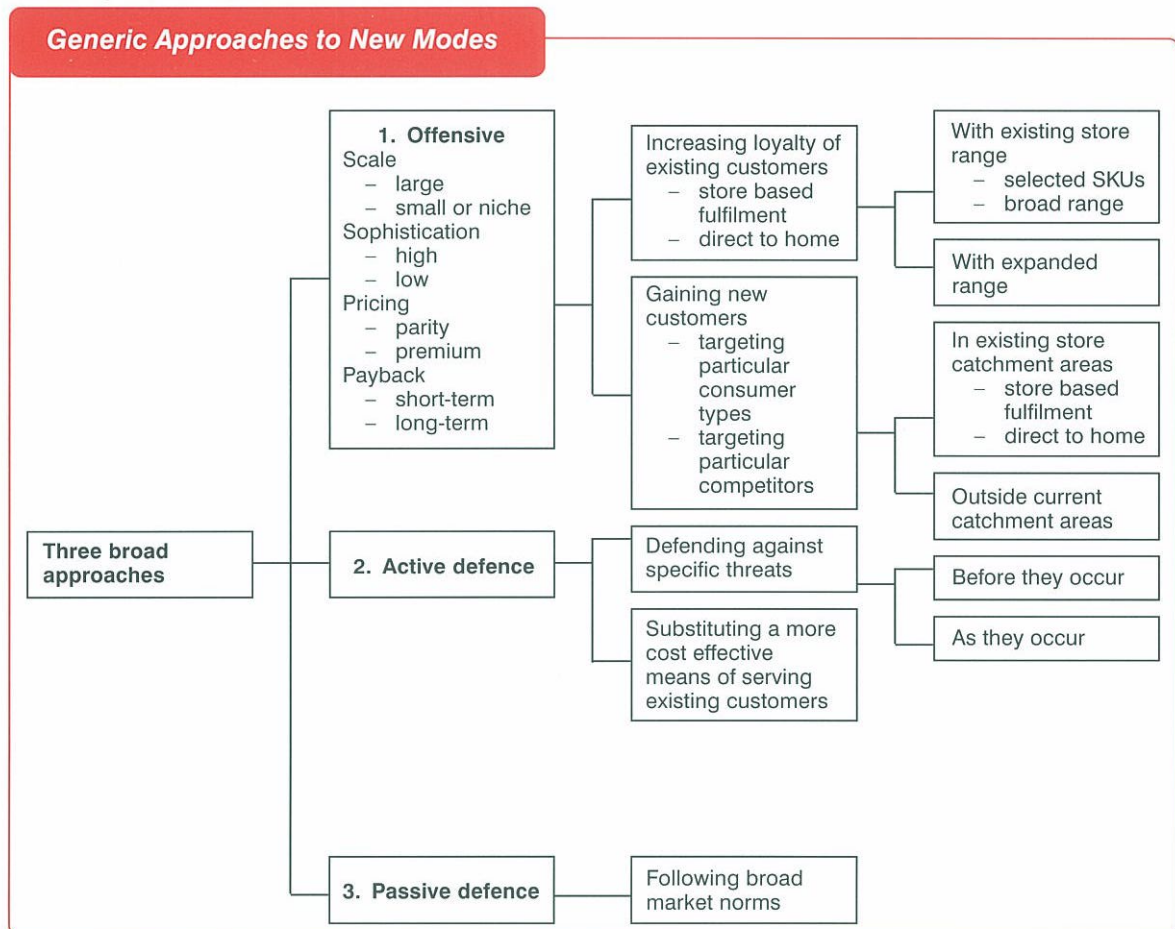
At a broad level, the threats and opportunities posed by new modes are:

| | Threats | Opportunities |
|--|---|---|
| For the foodstore industry at the market level | <ul style="list-style-type: none"> ● Part of the sector’s added value or profit surplus is taken by new competitors ● Control over the customer relationship is lost ● More cost and capacity is installed than added value created – a “negative sum” game is created | <ul style="list-style-type: none"> ● Stronger customer links are created which allow foodstores to expand their “share of customer relationship” ● New added value is created which the customer will pay for ● Infrastructure cost is taken out |
| For individual foodstores within the industry | <ul style="list-style-type: none"> ● Customers are lost to competitive attacks ● Customer loyalty is eroded | <ul style="list-style-type: none"> ● Increased loyalty/deeper relationships with existing customers ● New catchment areas opened up |

‘New modes’ could be either a negative or positive sum game. New consumer value will be created, but extra cost could easily run ahead of extra revenue.

4.8.4 There are many valid competitive routes forward

Moving forward from 1996 the diagram below illustrates three broad routes (which are not mutually exclusive).



There is no universal right or wrong approach. However, passivity cannot lead to competitive advantage; but offence can. There are opportunities for all types of players to redefine the rules to their advantage.

4.8.5 PR and branding are critical

New modes and multi-media will be of enduring media interest. The PR and brand building benefits of early experiments will be as great as their direct commercial importance. New modes are part of being perceived as progressive.

Peapod in the US is relatively small (1994 turnover was \$15m) but as a case study it is known by most of the relevant influential journalists worldwide. Peapod is virtually assured of high profile PR coverage wherever it develops.

4.8.6 New modes are not simply another form of distribution capacity

In many ways “new modes” are analogous to any conventional means of adding distribution capacity, e.g. new stores. However, new modes prospectively offer new added value and the chance to open up catchment areas to a much greater extent than a conventional store. Furthermore, within catchment areas they facilitate tighter consumer targeting.

Whereas the effective catchment radius of a foodstore might be 5 km, the catchment area of a direct distribution point might be 50km. The offensive and defensive implications of this step-change are:

- previously well defended stores (on account of their prime locations) can now be attacked, and the attack can be directed at their best customers (high spending customers buying high margin products);
- weak players can attack previously well entrenched competitors;
- strong players can use direct to further turn the knife and make life untenable for weaker players;
- a single store as a distribution point can now target a much larger customer base (even though using the store as the distribution point means that the cost of delivery will have to be recovered from the customer – thus limiting the market to those who are prepared to pay);
- smaller target groups can be economically targeted. If say a conventional store has to gain a local market share of 30% to breakeven then a direct service might only need 3%;
- it is easy to see how direct could become a service line that everyone has to offer.

The logic leads to a situation where the customer base and the understanding of it become the foodstore’s main asset rather than its physical location and buildings.

4.8.7 Foodstore operators will not generally be able to take out significant infrastructure costs as a result of new modes before 2005

To use direct to take out cost ultimately requires that store capacity is shut down. In a period when new modes are likely to have a low market penetration, it is unlikely that direct in itself will deliver cost savings at the industry level.

In the longer term it is possible to envisage conditions under which direct delivery will be a lower cost system. Key factors will be the degree of shared delivery logistics across different retail providers and the level of shopper penetration in defined catchment areas.

However, new modes can enhance cost efficiency within existing infrastructure; for example, by facilitating the better use of in store space through redesigned merchandising and product selection processes.

4.8.8 New modes must be integrated into how the foodstore itself evolves

A frequent hypothesis is that if commodity and staple items go direct then stores should concentrate on high interest “wants” and potentially whole categories need not be stocked. The problems with this hypothesis are:

- within 10 years not everyone will be shopping direct so the store will still have to play its conventional role for a large part of the market;
- individuals will define “staples” differently, so it will not be as easy as saying that products x and y will now go through one channel rather than another.

However foodstores, as described in Chapter 5, will increasingly have to:

- make the foodshopping process more efficient and less of a chore by taking out the inconvenience of selecting and purchasing low interest (in the shopping context) categories;
- enhance the social, experiential and high interest aspects of the foodstore visit.

New modes can contribute to these goals through, for example:

- the re-engineering of larger stores to become more like showrooms for high interest categories, to reduce the hassle of buying low interest categories and to allow the store to reallocate space from low to high interest products;
- extending the range of smaller stores.

A key theme of this study is the imperative to offer customers more options and more choice in how they interact with foodstores. New modes are an integral part of how foodstore – customer relationships can evolve to meet this need.

New modes offer the possibility not just of fitting into existing shopping patterns but of redefining them.

4.8.9 New modes could provide the variables to radically transform a foodstore business.

This is perhaps best illustrated by projecting forward and looking back through two “history of the future” interviews.

**Interview with Kristal Ball, CEO, Millenium Food Direct, Marseilles
July 2005**

What were the secrets of your success in the last ten years?

In 1995 we were a weak no 6 player. We realised that playing the game by the leader's rules was never going to get us far.

So in 1996 we formed an alliance with Eurotelco and Millennium Leisure to completely change the nature of our business.

Our food supply chain skills were blended with Eurotelco's network and multimedia skills and Millennium's powerful consumer brand name.

The resulting company Millennium Food Direct focused on cherry picking upscale urban target markets from Stockholm to Barcelona. We closed all but ten of our conventional foodstores. As you know, we supply first class products with exceptional service levels and the direct business has gone from \$10m in 1997 to \$300m in 2005 with a return on sales of 8%.

What was your biggest mistake?

We were too late to build on the exceptional customer relationships we developed and constructively expand the service and range we offered. This has let in some strong rivals and we now face a fascinating, but challenging battle to re-establish ourselves as the no 1 upscale consumer service company.

**Interview with Gustav Flavour CEO, the Food Company, Salzburg,
July 2005**

What were the secrets of your success in the last ten years?

The big insight was that many consumers across Europe would be happy to enter into medium-long term agreements to supply many 'known specification categories' if the deal they were offered was clearly more economic and convenient.

So we started off with a limited range of staples such as water and paper products and provided a service whereby if consumers would commit to doing \$750 of business with us during a year, we would take out at least 10% of usual supermarket costs, offer many special deals, and either deliver to the home at set times or make the goods available at special pick up points. Consumers place their orders by phone, fax, online or paper order form. Our customers make fewer, faster visits to conventional foodstores and do not have to carry around so many bulky loads.

We sold all our stores and operated through a series of regional distribution centres and rented pick-up points. We concentrated initially on densely populated urban areas. We made up for the loss of visibility of our stores by high profile sponsorships and PR events.

We found that some people used the service every week. Others with more space at home would, less frequently, place massive 'stock-pile' orders and qualify for extra discounts.

What was your biggest mistake?

We have been too slow to develop an exciting and interesting multi-media interface for the service. We underestimated how important it would be to get into this early, establish a reputation and start climbing the steep learning curve.

THE COMPETITIVE AGENDA FOR 2005



- 5.0 Introduction
- 5.1 Uniquely define the role and branding of the foodstore
- 5.2 Offer a unique range
- 5.3 Re-engineer the foodshopping process
- 5.4 Reconceptualise the foodshopping experience
- 5.5 Developing smarter customer relationships and communications
- 5.6 Operate at the productivity edge
- 5.7 What competencies will the excellent 2005 foodstore need?

CHAPTER 5: THE COMPETITIVE AGENDA FOR 2005

CHAPTER SYNOPSIS

The proposed agenda has six elements:

- 1 Uniquely define the role and branding of the foodstore
- 2 Offer a unique range
- 3 Re-engineer the food shopping process
- 4 Re-conceptualise the food shopping experience
- 5 Develop smarter customer relationships and communications
- 6 Operate at the productivity edge

To win against this agenda will require most foodstores to transform their businesses by 2005. Most foodstores currently would not score highly against the elements of the agenda.

Common issues would be:

- lack of a truly distinctive purpose, personality and identity;
- the product range not being genuinely differentiated;
- the food shopping process offered to the consumer being very similar to that of 5, 10, 15 or even 20 years ago;
- the food shopping experience being clinical, unexciting and undifferentiated versus the main competitors;
- the consumer-foodstore relationship being dangerously monolithic, shallow and impersonal;
- the business not being near 'best in world' operational standards.

| Strategic Element | Purpose | Sub Themes |
|---|---|--|
| 1 Uniquely define the role and branding of the foodstore | To give the foodstore a leadership platform that is more than the sum of its parts and that is uniquely differentiated | <ul style="list-style-type: none"> ● Defining a unique role and positioning ● Winning the multi-dimensional battle versus other sectors ● Leveraging the asset of good locations |
| 2 Offer a unique range | To create positive pull, giving consumers a solid reason for loyalty | <ul style="list-style-type: none"> ● Local tailoring ● Unique ways to use major brands ● Unique private label ● New services and categories ● Extending the range through technology ● Achieving category leadership |
| 3 Re-engineer the food shopping process | To eliminate or minimise the consumer negatives of the foodshopping process | <ul style="list-style-type: none"> ● Technology initiatives ● Service initiatives ● Operating initiatives ● Merchandising initiatives |
| 4 Re-conceptualise the food-shopping experience | To make visiting the foodstore a positive added value experience. To make the foodstore positively differentiated | <ul style="list-style-type: none"> ● Beyond SKUs to solutions ● The creation of experience and atmosphere ● Close management of all 'moments of truth' |
| 5 Develop smarter customer relationships and communications | To give the customer more options for how they are served. To add value to the customer through actions based on a better understanding of his/her needs and wants | <ul style="list-style-type: none"> ● Relationship options ● Working on the 1-1 level ● Effective communications ● Price and value ● Relationship technology |
| 6 Operate at the productivity edge | To optimise efficiency in delivering a defined level of service/quality | <ul style="list-style-type: none"> ● 2005 operating benchmarks |

"If you reach for the stars you might not get there but at least you won't come up with a handful of mud either"

Leo Burnett

5.0 INTRODUCTION

This chapter addresses the question:

what must foodstore operators do to get close to the consumer and maximise their competitiveness?

The proposed competitive agenda has six elements (see above). In combination they represent a transformation of a conventional foodstore. The chapter looks at each element and summarises the shifts in competencies the excellent foodstore will require by 2005.

The first five elements are aspects of quality. While the perpetual golden balance between competing on price or quality remains, the focus of this report is on quality as this is the most critical dimension to reengineer or 'reimagineer'. For the leading price orientated competitors, hard line discounters, the key issues remain unchanged; how much cost can be taken out? and, what is the minimum quality level that consumers will demand?

Elements 2 and 3 involve a balance between 'fun and function', or what Ahold in the Netherlands call 'fun and run', i.e. between offering shopping process efficiency and shopping experience. Individual foodstores must define their own approach, but the ideal is to offer both 'fun and run' or to be flexible enough to allow individual consumers to choose their own balance.

Customer service is usually treated as a competitive dimension in its own right. We see it as better broken down across elements 2, 3 and 4. Technology and 'new modes' also apply across the elements rather than in their own right. This avoids the 'solution looking for a problem' pitfall.

Element 6, 'Operate at the productivity edge', is covered in less depth as the focus of the study is consumer orientated. Operational productivity is essential, but to rely on efficiency alone for competitive advantage is to rely on competitors being perpetually inefficient, which will be less and less tenable as a strategic assumption.

In using the agenda, one strategy or interpretation does not suit all.

5.1 UNIQUELY DEFINE THE ROLE AND BRANDING OF THE FOODSTORE

Role and branding will increase substantially in competitive importance:

- location, operational efficiency and basic service will be necessary but not sufficient for competitive advantage;
- consumer expectations of corporate behaviour will increase;
- it will be hard to maintain broadly based consumer appeal;
- competition for foodstores will be much broader.

The excellent foodstore in 2005 needs a unique 'leadership platform'; a competitive proposition/business system that is more than the sum of its parts and that competes with the best service companies for pre-eminence in the consumer's mind.

This involves the development of unique answers to questions of role, purpose, proposition, mission, brand and added value. Below we break this down into three elements:

- 5.1.1 Defining a unique role and positioning.
- 5.1.2 Winning the multi-dimensioned competitive battle versus other sectors.
- 5.1.3 Leveraging the asset of good locations.

5.1.1 Defining a unique role and positioning

Foodstores are naturally well placed, but not guaranteed, to develop meaningful consumer relationships due to:

- the universal importance of food;
- their prominence, high visit frequency and the large number of 'moments of truth' in a food shopping trip;
- the natural proximity of the store to the customer compared to any other part of the food industry.

Looking to 2005 the potential to develop brand and role is fundamentally important.

However there are significant challenges not the least of which is organisationally redefining the scope of the business by making branding and customer management core senior management competencies. In addition, physical proximity to the customer no longer guarantees the best relationships, as demonstrated by direct financial service companies.

The model opposite illustrates progressive steps along four key parameters to show how the role of the foodstore might evolve. A foodstore's role can be classified by its position on each parameter.

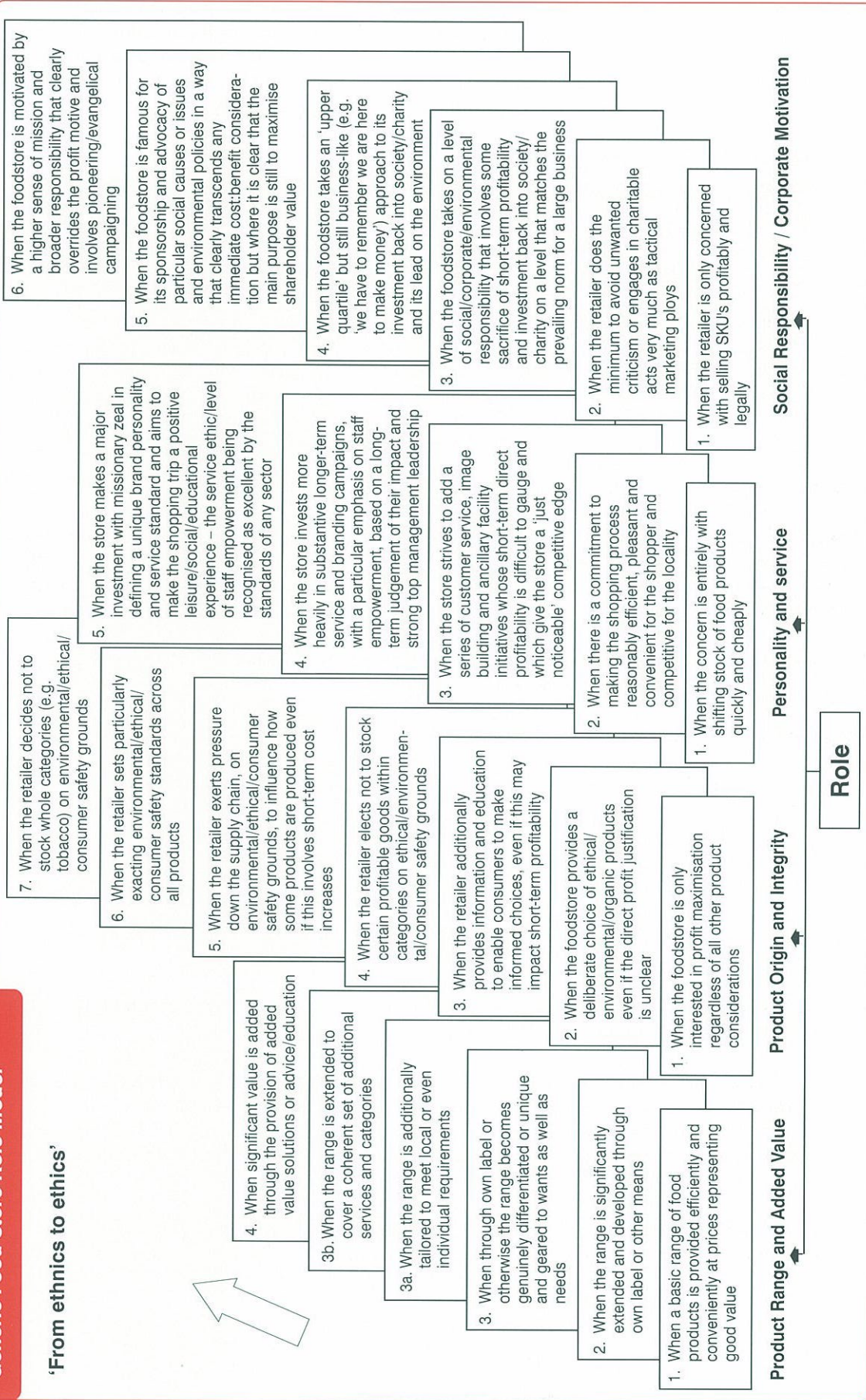
Key points in interpreting the model are:

- 1-1-1-1 is the basic foodstore role;
- the prevailing competitive and consumer pressures are to move well beyond the basic, although there is no suggestion that the top level, 4-7-5-6, must be the ultimate target for all foodstores;
- a breakpoint occurs when the store overtly makes choices on behalf of consumers. A foodstore moving beyond this point enters dangerous water;
- the typical 1996 supermarket probably has a flat 2 profile whereas the competitive 2005 foodstore is likely to need at least straight 4s;
- each food store's approach will be context specific. Starting points and target end points will differ as a function of strategic judgement, culture and local market conditions;
- the higher up each parameter the more ambition has to be underpinned by senior management conviction.

The 'role model', while simplistic, generates 2,100 (10 x 7 x 5 x 6) strategic options for a foodstore and so demonstrates there is no single answer to the question; 'what is the future role of the foodstore?'

Generic Food Store Role Model

'From ethnics to ethics'



The 'role model' helps classify different roles but individual foodstores need individual and less mechanical positioning statements to define the essence of what makes them unique. This game is not a race to one ideal positioning. It is about defining a position that competitors are unable to or wary of emulating because there is insufficient consumer space and because the positioning is well executed. Many directions are possible including those illustrated below:

Possible foodstore positionings

- The **expert high interest food company** concentrating on leading food values and perhaps applying these values across retail, eating out and catering.
- The **specialist in a particular type of shopping trip** e.g., the top-up, the bi-monthly stock up.
- The **food and food skills educator**, looking well beyond the boundaries of the store to take responsibility for people's understanding and appreciation of food and cooking.
- The **world's favourite foodstore** through a unique range and customer service ethos.
- The genuine **trans-european or global foodstore** being expert at constructing an offer that transcends local boundaries, and that is represented in many markets.
- The centre and **spine of the local community**, being seen to concentrate on adding value locally and contributing back to the community, offering social facilities.

"In the high tech world, people yearn deeply for community. They long for a web of connection and support. Shops will only survive if they are part of the community where customers can enjoy real meetings with enthusiastic and sincere retailers";

Anita Roddick¹

Hemshop in Sweden has developed a profitable niche by positioning itself as a meeting point and supporter of the local community. It aims to make customers feel positive about shopping there and has created a certain social standing about being a Hemshop customer.

- The **provider of social support and solidity** in a chaotic world helping people adapt to the pace of change and stresses of 21st century life.

"People are under tremendous pressure. It would be good to help them"

Thomas Meinl, Julius Meinl

- The **integrated 'life support' company** providing everything needed to sustain day to day living and providing a complementary set of channels to be served from store based to direct.
- The **innovative 'making life easy and interesting' company**, excelling at new and better convenient ways of doing things.
- The **committed environmentalist** or ecologist believing in and delivering on 'deep green' credentials.

"Swedish Coop will be a profitable attraction by adopting a true green approach in depth. We are working with a university on a substantial green programme"

Peter Westring, KF Sweden

- The **quirky personality** becoming famous for a distinctive style of doing things that is engaging for customers and difficult to imitate.
- The **leading 'global' window on the world** bringing the best products from across the globe and locally perhaps through the idea of 'foodstores as food theme parks'.
- The **guardian of the food chain** taking over long term responsibility.

"If retailers are serious about being in food they must take responsibility for it"

Mike Groves, Retailing World

- The **crusading campaigner**, taking a pioneering and strident position on key consumer issues e.g. animal welfare.
- The **consumers' champion** on food safety, ethics and fair pricing etc, acting as an active filter and quality control mechanism but particularly making more information available to customers.

Defining a unique positioning is analogous to defining a unique genetic code, or DNA, shared by the cells of the corporate body encapsulating what is distinct about the organisation and how it operates.

The absence of a unique code will increasingly result in mutually destructive battles on easily imitated competitive dimensions like price.

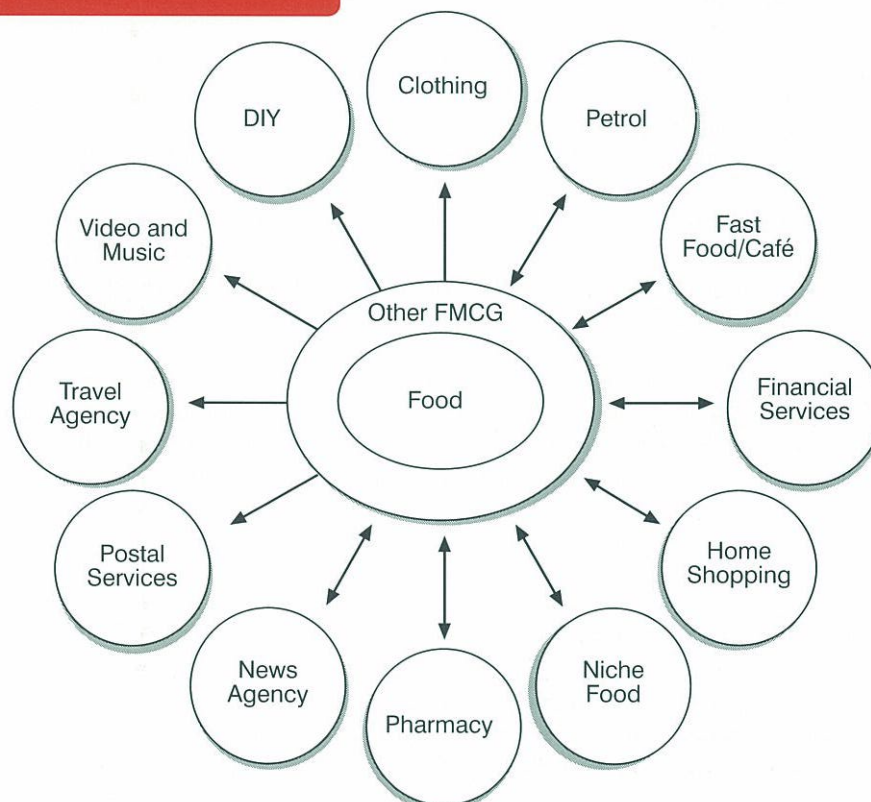
5.1.2 Winning the multi-dimensional competitive battle versus other sectors

A theme of this study is that foodstores do not exist in isolation and that they are engaged in a wide competitive battle. In this context:

- consumers increasingly judge organisations by their competencies and values and not just by the product category associations;
- consumers have an escalating intolerance of anything less than excellence, which leads to their receptivity to the best service companies applying their capabilities across category boundaries;
- foodstores often have strong advantages versus other sectors through their business systems, visit frequency and consumer prominence.

These factors give the best foodstores consumer 'permission' to consider extending their propositions, competencies and business systems to different formats in food or other sectors and to integrate more categories of product and service into the total offer.

Multi-Dimensional Competition



(many foodstore operators, of course, are involved already in some or many of these markets)

Looking at format extension; in the next ten years there will be more rivalry among different types of service companies to pioneer coherent consumer propositions across sets of markets and channels. The prospective benefits to foodstores are:

- the creation of a brand 'experience' that can be accessed other than through just one format;
- a stronger capability to keep in the news and in the forefront of the consumers mind. Each format is an interactive media to keep in touch with the consumer;
- possibilities for real growth, against the backcloth of a mature food market;
- synergies in blending foodstores with other formats, for example petrol stations are natural convenience store formats and foodstore operators are often better placed to run petrol stations than petrol retailers. (UK food retailers operate 3% of UK petrol stations but have over 17% of the market). In the future petrol stations could also be natural 'pick up' points for groceries ordered from home.

However format diversification for foodstores is only for the few who meet stringent success criteria:

- adding value to the sectors they enter through their business systems or position of trust;
- keeping out of markets where they cannot improve on what is already there;
- adding value back to their corporate brand and not contradicting what consumers see as the essence of the brand;
- having the capability to manage the branding and operational process successfully;
- getting the timing right.

Foodstores have the greatest 'right' to succeed where food/FMCG is a natural part of the offer and where the business system is clearly relevant, e.g. in petrol stations rather than travel agencies. The obvious way to attack non food related formats is first by providing the service under the roof of the existing foodstore. This may lead to the credibility to support stand alone formats.

Foodstores arguably also have services such as money transmission in their core. Whether this link can be converted into real competitiveness in financial services is a question of brand strength and brand definition. It is quite possible. Various European food retailers already operate successful payment cards, e.g. ICA of Sweden.

Foodstore operators can of course make a virtue of food specialisation. Format extension is an opportunity not an absolute imperative. However many foodstore brands have not historically been managed as a set of corporate competencies or even actively managed at all. The legacy is often a corporate foodstore brand that lacks leadership potential and the authority for constructive extension.

5.1.3 Leveraging good locations

Broadly based foodstores face an increasing tension in serving a polarising and fragmenting customer base through a single store. Focusing on a tightly defined niche of customers is one response, e.g. chinese food only supermarkets. However, this potentially goes against:

- 'might of site', the importance of location for most consumers as a key driver of store choice;
- the importance of scale to the economics of a foodstore.

In practice niches are often simply 'markets with very few customers' rather than special marketing territories. Furthermore the 'double jeopardy' effect arguably applies to most foodstore situations. This is the 'rule' based on considerable empirical evidence² that successful brands/stores, within a defined market, not only have the most consumers but also the most loyal ones and vice-versa. The rule explains why some foodstores perhaps miss the point when they focus on customer retention as an isolated variable.

The implication for foodstores is the imperative, as a first choice, to find innovative ways to serve differential needs from 'one box'.

"There is no such thing as a typical customer. Our challenge will be to create customers for a typical store".
Eamonn Quinn, Superquinn, Ireland

The means of doing this integrate a range of tools including:

- clever management of the overall foodstore brand so that through a series of linkages it can communicate credibly tailored messages to different groups;
- range segmentation especially using private label;
- special facilities to meet special needs e.g. for the elderly, mothers with children etc;
- segmented marketing initiatives, e.g. as McDonalds use Ronald McDonald to appeal to children.

5.2 OFFER A UNIQUE RANGE

A goal of the leading 2005 foodstore is to create 'pull' through offering a genuinely unique range. Asda in the UK have an objective of 25% of their offer not being generally available in competitors' stores. In addition to range breadth and depth, the following levers will increase in importance in achieving this goal:

- 5.2.1 Local tailoring
- 5.2.2 Unique ways to use major brands
- 5.2.3 Unique private label
- 5.2.4 New services and categories
- 5.2.5 Extending the range through technology
- 5.2.6 Achieving category leadership

5.2.1 Local tailoring

This is the use of information technology, local market understanding and logistics to make a higher proportion of the range locally orientated, either through the stocking of local products or products that suit the particular local demand profile. The goal is to make each store a 'chain of one'.

Larrys in Seattle, Washington State, at the height of the Washington strawberry season promotes strawberries from local growers with a guarantee that the fruit is picked fresh each morning and delivered to the stores by noon. This policy ensures freshness even if more advantageous prices might be obtainable by pre season state wide deals.

Wal-Mart's system for local tailoring incorporates over 2,500 variables and store managers have the authority to override the system.

A further route is the remerchandising of the store to suit different times of the day or days of the week as illustrated by 7-Eleven in Japan.

7-Eleven Japan Merchandising by day-part

- For each transaction the cashier enters the sex and estimated age of the customer.
- Combined with EPOS data this generates a constantly updated profile of shoppers across the day and week.
- Using the profile the manager remerchandises different parts of the store for each day-part to meet specific shopper profile needs e.g. for school children coming out of school there will be more emphasis on snacks and soft drinks etc, for blue collar workers at midday there will be more emphasis on rice and noodle lunch dishes.
- Overall 7-Eleven stores are replenished at least three times a day. The hand held computer used for reordering carries meteorological forecasts and holiday data etc as well as extensive sales information.

5.2.2 Unique ways to use major brands

Most foodstores will continue to rely on partnerships with major brands. However, as major brands are widely distributed, standard stocking and promotional cycles, by definition, only give competitive parity.

Supplier-retailer partnership emphasis to date has been on the 'supply chain', whereas 'demand chain' collaboration offers as much absolute and competitive benefit. The challenge is to engage brands in innovative ways through for example:

- unique merchandising systems, that are more dynamic and interactive and that become media in their own right, e.g. Tesco's use of mannequins of rugby players to link in with Heinekens sponsorship of the 1995 Rugby World Cup; and Coca-Cola's World Cup displays;
- mini brand 'stores within a store' with their own personality;
- joint branding of private labels, limited editions or promotions;
- joint sponsorships, marketing programmes or loyalty scheme participation adding value to the market rather than redistributing it.

The unique use of brands is taken further by those who believe that the brand battleground will eventually be "chain to chain" between alliances stretching up and down the supply chain.

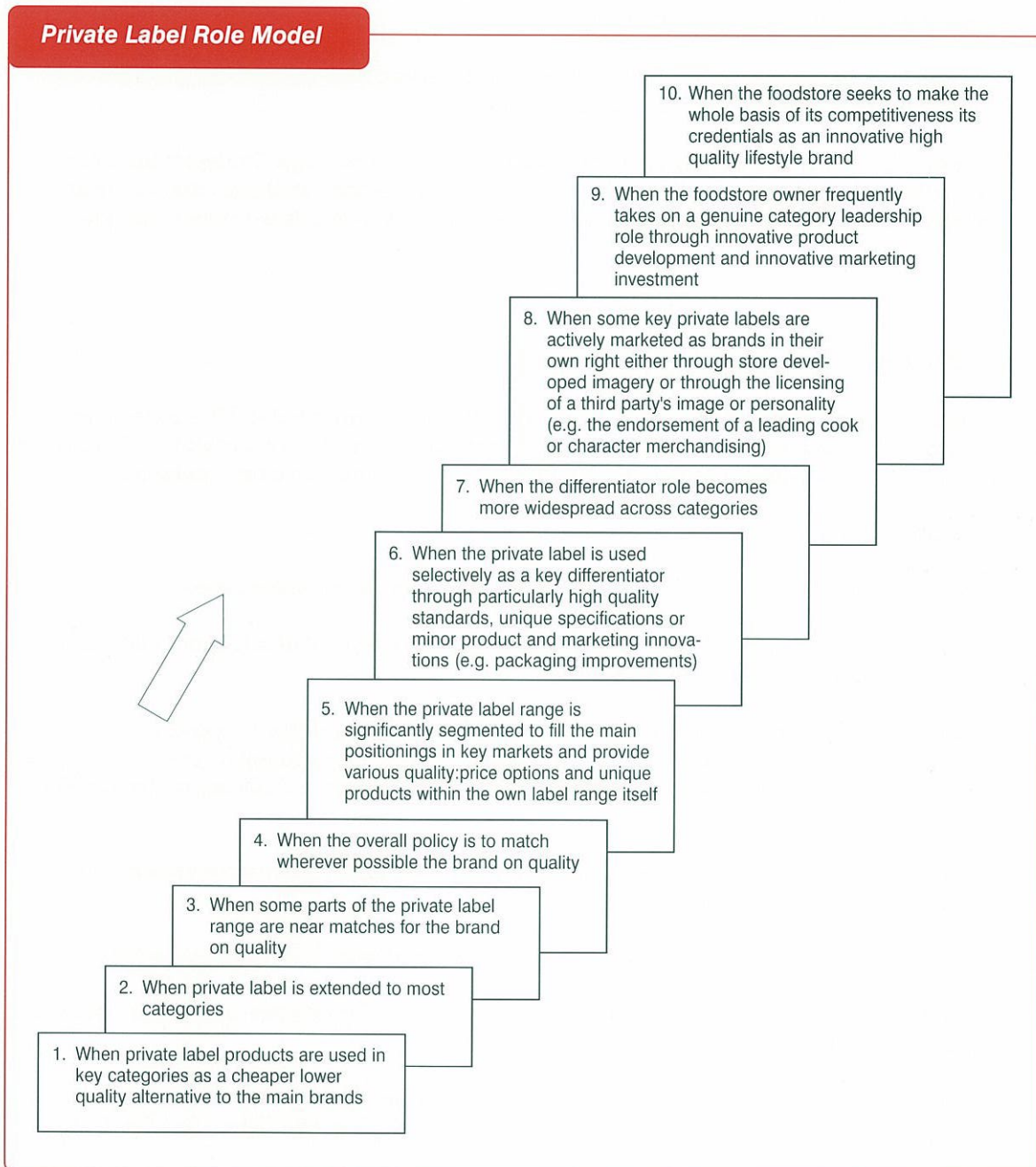
"Instead of Tesco versus Sainsbury's, for example, the Tesco alliance (Tesco and its suppliers, which work mainly for Tesco but not for Sainsburys) would take on the Sainsbury's alliance. More fancifully, perhaps, it could be the Unilever manufacturing and distribution constellation (including some direct delivery and some multiples with whom it has exclusive distribution arrangements) versus Sainsbury's and its suppliers which would include Procter & Gamble but not Unilever"

from an article by Alan Mitchell, Marketing Week³

The problem with this scenario is that it is unclear what the consumer benefit would be and therefore what the motive force would be to drive the shift.

5.2.3 Unique private label

The prize is to make 'private' = 'unique' by migrating the role of private label up the maturity model below.



Moving up the model has clear competitive benefits, but towards the top becomes organisationally, commercially and operationally very difficult.

However, foodstores that can meet the success factors shown below will have a highly defensible and powerful competitive advantage:

- board level drive and commitment and a long term approach;
- a world class innovation process linked into world class partners in R&D, manufacturing and licensing;

- world class strategic brand marketing skills;
- the commitment to invest in marketing programmes;
- potentially, alliances with foodstores internationally to reap scale economies in development (e.g. Loblaw's Presidents Choice range);
- potentially, brand alliances with third parties such as leading cooks, restaurants and food personalities to create unique ranges and propositions.

Innovation and the creation of long term category value are the real keys. Strategies that result in the reinvention of markets must ultimately offer higher rewards than strategies that reshuffle existing markets. Marks and Spencer's pioneering of chilled ready meals is a prime example.

5.2.4 New services and categories

Foodstores have long been diversified into non food categories. This trend still has considerable stamina driven by food market maturity, increased competition for 'share of customer relationships' and the natural 'visit frequency' advantage of foodstores in offering consumers 'more per stop'.

Category diversification done well:

- gives more degrees of freedom to the foodstore to construct a unique range;
- moves the foodstore into a higher margin mix often in fragmented categories without a category giant who can retaliate directly;
- provides a PR payoff. Asda in the UK in May 1995 received widespread positive news coverage for discounting a new John Le Carré novel, so underpinning its low price message in a defensible way as it is hard for a book shop to discount milk. Asda accounted for 30% of the UK sales of the title;⁴
- enhances the customer relationship and meets the consumer need for convenience, quality and minimum stop shopping;
- reinforces the role of the food store as the main day to day consumer venue or hub.

A key trend is the bundling under one roof of the foodstore with dry cleaners and film processors etc. This adds up to a alternative town centre:

"the high street's not dead for heavens sake, it's just been folded up and put under one roof"
Christopher Middleton, Sunday Telegraph⁵

To the consumer this can be an improvement on a normal town centre through:

- co-ordinated opening hours;
- easier access, better layout and shopability;
- efficient and guaranteed services (e.g. 1 hour dry cleaning);
- common branding, bringing to bear core retail competencies and service standards;
- cross promotion.

Leclerc's Normandy hypermarket is a recent example.

Leclerc builds haven for the discerning shopper

The French voluntary group's new hypermarket in Normandy may be a prototype for future stores.

The 10,000m² hypermarket shares the site with a 60-store, four restaurant shopping mall, Leclerc's own travel agency and vehicle service centre. The company has departed from traditional store layout: stores-within-stores (such as pharmacy and jewellery) are grouped together beside the clothing department towards the back of the store; fresh food departments are organised as mini-stores and colour-coded to create warmth. Other features include: a 500-line wine cellar, fitted with an interactive advice service for customers and a temperature-controlled smaller cellar for prestige wines; a beer cellar; and a delicatessen with over 500 speciality products from around the world. A special unit has been set up to prepare relevant fresh product sections of the hypermarket for ISO 9002 accreditation.

Source: CIES Food Business News, June 1995

5.2.5 Extending the range through technology

Screen based services can extend by an order of magnitude the range of the store. Items can be selected with whatever level of decision support is needed, and can be delivered to the home or to the store for collection. Current examples include:

- the Leicester Co-op's system that allows customers to order non stocked lines in space constrained stores;
- RS Components who back up a store based offer of up to 20,000 skus (in electronic components and related markets) with what will soon be a further 80,000 skus from a catalogue, available as hard copy or CD-ROM.

Range extension needs to be seen in the context of the ideal position for the 2005 foodstore as being in the elite group of service organisations that command broadly based relationships and positions of consumer respect. Here the role of marketing shifts¹³ from finding customers for the store's products to finding products and services for the company's customers, ultimately on an individual basis.

As a 'sourcer' of products and services for customers the role of a foodstore will increasingly cross conventional retail demarcations. Foodstores can act for the consumer to source the range of other retailers. Alternatively they can form alliances to do this. For example, Safeway in the UK offer its shoppers a customised Kays mail order catalogue.

5.2.6 Achieving category leadership

The previous elements 5.2.1 to 5.2.5 work harder if collectively they support and perpetuate the perception of the foodstore as setting the pace and having particular authority in selected key categories e.g. chilled ready meals, fresh fruit or prepared hot food.

5.3 RE-ENGINEER THE FOODSHOPPING PROCESS

The fundamental negative of the foodstore is having to visit it at all, which has been tackled historically by one stop and bulk shopping and in the future will be tackled additionally by new modes (see Chapter 4).

This section highlights ways to eliminate or minimise the negatives of foodstore shopping itself. The hit list for eliminating negatives is as defined in Chapter 3:

- congestion hotspots;
- range changes;
- getting service;
- checkout process;
- product search difficulties;
- store navigation;
- crowding / inconvenient hours;
- car parking and arrival;
- shopping cart suitability.

The tools available are:

- Technology initiatives, e.g. self scanning.
- Service initiatives, e.g. checkout queuing policies, guarantees.
- Operating parameter initiatives, e.g. opening hours, car parking facilities.
- Merchandising initiatives.

The tables in Appendix I provide a checklist of a series of initiatives aimed at minimising foodstore negatives using these tools.

5.4 RE-CONCEPTUALISE THE FOODSHOPPING EXPERIENCE

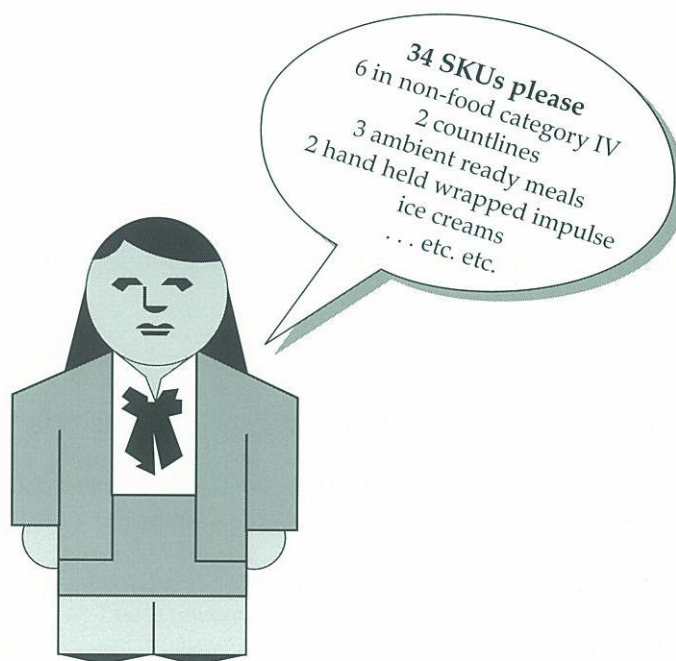
Making foodstore shopping a positive process is critical in ensuring the foodstore's continued right to exist. There are three sub-elements:

- 5.4.1 Beyond SKUs to solutions.
- 5.4.2 The creation of experience and atmosphere.
- 5.4.3 Closer management of all 'moments of truth'.

5.4.1 Beyond SKUs to solutions

Consumers' base interest is in solutions to needs and wants, e.g. feeding the children fast but healthily or creating an excellent dinner party.

Consumers have no direct interest in the retailer concept of SKUs or production orientated category definitions.



Solutions provision will increase in importance as a dimension of quality (as it is in every industry from computers to life insurance) through:

- *pre-prepared solutions* such as ready meals, hampers, dinner party services, party platters etc;
- *tailor made solutions* responding to specific customer enquiries;
- *suggested solutions* in the form of proposed recipes for example, either made available passively through leaflets or actively propagated through advertising and demonstrations etc;
- *advice on demand* about products, menu combinations, recipes, cooking processes etc, delivered through either: staff in store, in store information bars, fact books, help line services or on-line services etc. Especially on-line limitless information can be provided. For a single product the data that a consumer might be interested in includes; who made it, how and under what conditions, how to use it, dietary, health and allergy information, consumer test data, value for money comparisons and data on variants and sizes etc.

Examples of solutions provision include:

- Superquinn's (Ireland) willingness to sell consumers half boxes of product if the standard packs are too big;
- FDB's introduction of rabbit meat supported with an education programme about how to prepare, cook and serve the meat – as most Danish consumers had no experience of rabbit;
- Vons in California 'Ready, Set, Dinner' computerised meal planning service based on five potato based recipe categories.

- Sainsbury's recipe advertising campaign that not only cleared their stores of the promoted ingredients but also the stores of their competitors;
- Ukrops, in Virginia (USA), offers microwave-ready prepared meals (120 varieties), a fast food counter (including freshly prepared grilled chicken, fried chicken and gourmet pizzas), a salad station, and a "meal station", which merchandises the ingredients for a meal which can be prepared in 15 minutes and for less than \$8 for two. (This offering changes weekly.)

"Half the people who come in don't know what they want. They have open minds and empty stomachs."
Jacquelyn G Legg, Vice-President of Creative Food Marketing, Ukrops⁶

Implementing effective solutions provision requires:

- better trained frontline employees supported by strong information systems;
- the logistics and merchandising capability to bring together menu solutions from across categories at one site in store;
- expert product development and market understanding capability;
- a strong consumer reputation with expert endorsement for 'food values'.

However 'solutions provision' is not unambiguously beneficial. Some consumers want to 'work it out themselves' and some react against input they see as patronising.

"Why do companies insist on offering condescending advice on everything from skincare to gardening? Credit us with a little more common sense"

Virginia Matthews (consumer writer)⁷

5.4.2 The creation of experience and atmosphere

Retail is often characterised as 'theatre' or 'performance art' based on the analogy with the primacy of the audience, the role of scenery, lighting and atmosphere and the role of well directed performers working to a script but adding individual flair.

"The audience is the most revered member of the theatre. Without an audience there is no theatre. Every technique learned by the actor, every curtain, every flat on the stage, every careful analysis by the director, every co-ordinated scene, is for the enjoyment of the audience. They are our guests, our evaluators".

Viola Spolin, Theatrical Director⁸

However, little food retailing can be classified as theatre when compared to other sectors:

"Major product brands such as Levis and Nike have gone a long way towards developing stores as living experiences, where customers immerse themselves in the lifestyle and values of the brand. Nike Town in Chicago is more like a museum, an interactive ad, than a store, but there are friendly knowledgeable staff constantly on hand. In these emerging environments only half of what you see is product, as opposed to 90 % five years ago"

Zuilmah Wallis, Fitch Design Company⁹

Theme parks like Disney and Lego are also strong analogies. They create powerful 'worlds' which are strongly branded experiences that can be accessed in many ways including unique private label and dedicated media. Employees are cast members.

In the foodstore context as consumer choices expand, the goal is to make the store a surprisingly positive experience every time and not just a transaction. The idea is not new. For example, the best 1930's department stores and food halls were all about theatre, experience, sociability and customer delight.

Key variables to generate experience and atmosphere through information, entertainment, education and socialisation include:

Merchandising, where the main challenge in the next ten years is to make the 'needs' side of the equation efficient and the 'wants' side more engaging.

Merchandising can deliver the concept of 'food as fashion' and maximise the scope for constructive serendipity allowing chance and impulse to play a part in consumer choice. Merchandising should perhaps work analogously to a newspaper with 'readers' or 'shoppers' understanding where to find all the sections but expecting to discover something new and intriguing there everyday.

Foodstores like Publix in Florida (slogan; 'where shopping is a pleasure'), emphasise a series of 'animation features' where customers, for example, watch staff prepare food or learn how to cut meat properly. Citta Mercata (Rinascente) in Milan have a notable open fresh market.

Events, which can provide excitement and interest on a constantly changing basis. The Incredible Universe in Miami for example has a large central space devoted to live rock music performances. Albert Heijn in the Netherlands arranges cooking demonstrations at some stores.

Employee service, sincerity and personality. Generally foodstores are respected for efficiency and systems rather than personality and soul. Employee service standards might be high but often in a programmed 'smiles in the aisles' manner. There are few world class service and empowerment mythologies in European grocery retailing. This is a weakness as service brands depend largely on employees for their impact.

"It's a well kept secret but world class service brands really work 90% through their organisational and staff impacts and perhaps only 10% through their direct consumer propositions."

Chris Macrae, Author 'World Class Brands'

The opportunity is there to do more. Interesting initiatives include:

- a range of often very brave actions by Superquinn in Ireland designed to engage the customer, which are delivered through the employees;
- Asda's initiatives in the UK for example emphasising craft skills e.g. butchery and specifically recruiting employees with friendly personalities;
- Tetley who have a programme for their pub employees in the UK incentivising them to remember the names of up to 2000 individual customers.

Personality initiatives however heighten the need for underlying operational efficiency. They are not substitutes:

"I've always found overt friendliness in shop assistants to be somewhat overrated. I'd rather a taciturn but efficient cashier to a talkative but useless one . . . but the joy of giving money to a trader who actually appears to want to do business with you and who doesn't make you queue . . . is considerable"

Virginia Matthews (consumer writer)⁷

Personality offensives will backfire if they are synthetic or impede shopping efficiency. However, an overly systemised environment itself is a barrier to spontaneous experience and atmosphere.

"consistency is the last refuge of the unimaginative"

Oscar Wilde

The difficulty is that the larger the foodstore chain the more difficult it is to foster empowerment in addition to strong control and discipline. This is one of the toughest challenges of the next ten years.

The other imperative is to keep moving forward:

"The challenge is to keep people surprised. You have to give them more than they thought they were going to get. If people are going to notice that the service is good – when they already expect that to be the case – it's up to us to surprise them and to make them say 'oh, that's interesting' or 'oh, that's nice'".

Liam Strong about British Airways¹⁰

Interactivity through kiosks or merchandising displays. Kiosks are a growth area. Consumers are used to them particularly in the form of bank cash machines. They enable retailers to provide on-line services for people who do not have the equipment in their home. They can be open 24 hours a day and sited more or less any where.

Examples of instore kiosk applications include:

- Comet's CD-Rom which enables employees to guide the customer in finding the optimum personal computer solution;
- Argos who have an interactive catalogue in kiosk form instore. If an item is not in stock the kiosk offers an alternative.

Support facilities which increase the foodstore attraction as a leisure and social venue through:

- "edutainment" and entertainment facilities for both children and adults e.g. cookery classes;
- social and community facilities;
- interactive kiosk areas or 'electronic cafes'.

Store environment and design where new emphases will include:

- tailoring of national formats to create unique local signatures;
- using inspirations from fashion, theatre and leisure but without undermining the basic efficiency of the process and without 'overloading' the consumer;
- strengthening the foodstore's total identity system;
- more effective signage and navigation systems;
- integrating innovative merchandising, without impeding efficiency;
- reducing the clinical or antiseptic feel of many foodstores.

5.4.3 Closer management of all 'moments of truth'

Europeans make approximately 345¹⁴ million visits to foodstores every week. Each visit comprises many small experiences that make an impression. These 'moments of truth' warrant close management and increase in importance in an era when competitive differentiation and the triggers of loyalty can be very subtle.

The excellent 2005 foodstore will have a highly detailed inventory of what consumers think of every aspect of the shopping process. Typical examples of small improvement opportunities are:

- when paying by card customers invariably get offered a poor quality pen, which is different every time which gives a bad impression, when alternatively they could be offered a good quality store branded pen (similar to the IKEA pencil);
- offering customers the chance to taste items at the delicatessen counter before purchase;
- employee uniforms are often unclean conveying the message 'I'm here to fill shelves' rather than 'I'm here to serve customers';
- offering to gut fish or butcher meat;
- shopping carts are often left with old cash register receipts or plastic bags which gives an untidy impression as the customer enters the store.

5.5 DEVELOPING SMARTER CUSTOMER RELATIONSHIPS AND COMMUNICATIONS

Current foodstore-customer interactions are relatively primitive. In particular foodstore-customer interactions are not typically:

- interactive;
- 1 – 1;
- proactive;
- lifetime value based;
- relationship based;
- personal; or
- segmented, e.g. into gold, silver, bronze levels.

The historic service bias has been if anything to "light buyers" through for example checkouts for 10 or fewer items.

In addition conventional communications tools are inefficient in addressing what a complex audience (millions of consumers) wants to know about a complex offer (000's of skus). In the last decade the average number of skus in a large space foodstore has increased by about 100%¹⁴. The number of new product introductions annually within a store might be 1,500.

The 2005 opportunity is therefore to:

- 5.5.1 Define new forms of relationship that give consumers options for how they want to do business with the store.
- 5.5.2 Increasingly deal with customers at a more customised or 1-1 level.
- 5.5.3 Communicate more effectively with consumers.
- 5.5.4 Refine how price and value are delivered.
- 5.5.5 Optimise the use of relationship technology in delivering the above.

5.5.1 Relationship options

Comparison to the best airlines, utilities and financial services companies suggests various opportunities and models, e.g.:

- clubs and club benefits, offered by individual retailers or as part of a consumer service network of partners;
- affinity sub group clubs e.g. for pet owners or cookery enthusiasts;
- store branded payment cards aligned to the main payment organisations e.g. Visa;
- different levels of benefit to lock into, e.g. gold coffee lounges, fast track car parking and checkout procedures;
- the equivalent of 'relationship billing', giving for example personalised cash register receipts, added value information about price savings, spend by category or compared to last month or in the year to date;
- the consumer as 'key account', negotiating for example the equivalent of supply agreements, overrides, service arrangements and special services on an individual basis;
- the food equivalent of private banking with privileged services and advice, 24 hour helplines etc;
- customisation of information (e.g. recipe construction, health analysis, calorie quantification, ready meal tailoring, dinner party service);
- meaningful customer charters or service guarantees.

However in looking to design new forms of relationship the following observations are important:

- customers are capable of sophisticated tactical behaviour to exploit customer loyalty schemes. Perversely the pursuit of loyalty can promote more promiscuous buying behaviour;
- the anonymity of foodstores has real consumer benefits. Not everyone wants to be interactively targeted. It can be intrusive and demanding. In the self service system the word 'self' is critical as it gives the customer a high degree of control. Recent Virgin Airline advertising has stressed that cabin staff know when to leave you alone if that is your need. The lesson is that new forms of relationship must be perceived as giving the customer more control not less, they should also 'make time not take time';

"Self service when provided properly is the best kind of service there is" Jim Sinegal Price/Costco¹¹

- 'relationship' and 'loyalty' risk being foodstore words and not consumer words. Consumers do not necessarily think of having a relationship with their foodstore in the way that they do with their friends and family or even their hairdresser. There is a limit to the number of meaningful relationships that a consumer will enter into and limited space in the wallet or purse for loyalty cards. Foodstores compete with all other sectors for a share of the consumers' mind and space in the purse;
- in moving to a tiered offer with additional benefits for 'gold' type members there is a chance of alienating other customers or being seen to be inequitable;
- relationship initiatives, such as loyalty cards, will certainly add cost but not necessarily sustained revenue if the moves are not defensible.

5.5.2 Working on the 1-1 level

A realistic vision to work for of a 1-1 foodstore-consumer relationship involves:

- a long term partnership approach that provides benefits for both sides, genuinely putting the C into ECR (Efficient Consumer Response);
- interactive links that the consumer can use flexibly anytime, anywhere;
- the capability of the system to identify the shopper during a visit and learn about consumption preferences and expenditure patterns thereby, for example, streamlining the search and order process by offering forecast requirement lists or tailor-made offers;
- the capability for the customer to override any of the suggestions easily and call up more choices;
- personal recognition and acknowledgement by employees;
- the capability for the customer to access any amount of supporting data and information from menu suggestions to product origin details;
- the opportunity for the customer to receive relevant news about new products and promotions but to edit out news of no personal interest;
- possibilities for tailor made products, e.g. cereal mixes, pizza toppings etc.

The ultimate purpose of 1 – 1 is to provide the customer with such concrete personalisation benefits that the switching costs of going elsewhere are too high.

1 – 1 developments are in the first instance most likely best focused on the foodstore's most important customers.

5.5.3 Effective communications

A corollary of smarter customer relationships is smarter communications. The goal is to provide each customer or potential customer with the information they want or will respond to but to cut out 'junk' messages and modes of communication that are intrusive or expensive. Partial solutions to this challenge include:

- greater use of *screen based information* either in store, in home or wherever. This gives individuals the 'on demand' capability to access what they want and to drill down or across to the level they want. The information accessible this way has no limits. The key is its convenience and 'personality' or fitness for purpose in the way it is received;
- greater use of *customer voicemail and telephone* services;
- greater use of *direct marketing* either as direct mail or generated at the checkout or service desk;
- using *customer data to tailor/filter the messages* that are sent;
- greater use of '*built-in*' media, i.e. media that the store owns and controls such as magazines, instore radio/video, shopping cart media etc. Two other forms of built-in media which are under utilised by foodstores are:
 - the 'identity system' of the store, which MacDonaldis for example is clever in exploiting with a series of communicators ranging from Ronald MacDonald, to emphasise commitment to children, through to the 'golden arches' sign for roadside visibility
 - developing flagship stores or beacon outlets designed for their visibility and PR value, more than their direct profitability. This is similar to MacDonaldis in Moscow, various airport outlets and the Levis store in Regent Street, London.

5.5.4 Price and value

Price and value will remain pivotal competitive dimensions but will still go through cycles as to exactly how critical they are depending on:

- the economy and the 'feel good – feel bad' factor;
- competitive dynamics;
- the relative success of those trying to make the market more price sensitive, like discounters, and those trying to make it more quality sensitive.

It is also likely that the competitive balance between every day low pricing and promotional discount pricing will ebb and flow. When one becomes the norm the incentive is created for someone to focus on the other or another approach.

However looking forward the following will be increasingly important overlays on price and value:

- consumers will respond to better information with which to make price-quality trade offs and in major categories will want a set of well signposted price:quality options;
- pricing anomalies will be harder to defend, e.g. the same product being sold at two different prices in different packaging;
- consumers will eventually be able to use screen based information technology e.g. 'intelligent agents' to better shop around;
- relationship marketing with customers will allow foodstores to set out accounts showing for example money saved over a six month or annual period;
- relationship marketing will also shift some of the emphasis from mass transaction based discounts to discounts delivered over time as part of a two-way longer term commitment, perhaps including club entry fees. In this way pricing will become more discriminating with pricing or value agreements ultimately tailored on a 1 – 1 basis so that:
 - the customer gets exactly the level of service required;
 - the foodstore can charge to reflect the value provided;
 - the customer has a long term incentive for loyalty not promiscuity.
- loyalty schemes must move towards being about superior customer value rather than thinly disguised price cutting remembering that ["loyalty is what is left when the bribes are taken away"]¹⁷ as quoted by: Drayton Bird, Marketing¹⁵;
- to the extent that food shopping becomes part of a wider bundle of multimedia services then the pricing equation becomes more complex. This could involve trading off minimum commitments to purchase versus price versus level of advertising messages received versus shopping services subscribed to etc.

5.5.5 Relationship technology

The smarter use of customer information is fundamental in all the above. Across thousands of skus and perhaps millions of customers with customer-to-frontline staff ratios of perhaps 450:1 only through information technology can the store offer the personal service of the corner store with the efficiency of the superstore.

"The strategic assets of retailers in the future will not be bricks and mortar or lorries but the structure and ability to collect, analyse and make use of data"
Peter Dettmann, ICA

"The winners will crack the data mountain"
Richard Piper, Europanel

The customer data mountain challenge has been evident for years. The crux is balancing the costs of data management and usage versus the commercial benefits derived and the capability of management to collect, understand and apply the data professionally.

"The mountain of data produced in retail has not always assisted management decision making because it has illustrated what has sold and not why" Terry Leahy, Tesco

However factors that are currently shifting the balance positively are:

- the falling cost of information storage, processing and communication. Into the 21st century these will be virtually free:
 - In 1996 perhaps 1 million customers can be tracked for the same real cost as a single customer in 1950;
 - a wrist watch given away with petrol today probably has as much computing power as a \$200 calculator 15 years ago;
 - a PC in 2005 will probably be 100 times more powerful than its 1996 counterpart and in 2015 maybe 10,000 times more powerful.
- the capture of more customer specific data through loyalty schemes for example;
- the development of more sophisticated information management capabilities;
- the availability of new analytical tools and techniques, such as:
 - data mining;
 - neural nets;
 - market basket analysis (see below);
 - data envelopment analysis;
 - expert systems;
 - customer activity analysis through video monitoring of customer traffic.

Market basket analysis

- A way of classifying individual basket transactions by lifestyle/buying occasion based on the type and amount of merchandise bought.
- The basket profitability of each "lifestyle/buying occasion" group is calculated to provide a ranking which guides operational investment decisions.
- These include which products to advertise and promote; "customer-optimal" space allocations and adjacencies; and cross-category decisions which affect total image and excitement generation.
- The market basket approach does not require credit card, loyalty card or demographic data. Even when this data is available the market basket approach provides a necessary decision-framework which extends beyond card data.

5.6 OPERATE AT THE PRODUCTIVITY EDGE

A proposition of this study is that operational efficiency is a necessary but not sufficient condition for competitive success for the 2005 foodstore.

In this spirit an indicative view on operating benchmarks¹² for the 2005 foodstore is shown below.

| Benchmark (1995 prices) | 1995 Gold Standard | 2005 Gold Standard |
|---|-----------------------|-----------------------|
| % sales captured by EPOS | 70% – 100% | 100% |
| % of goods replenished automatically using POS scan data | 60% – 90% | 99% |
| % of supplier transactions (orders/invoices) via EDI | 75% – 90% | 95% – 99% |
| number of days stock in the supply chain (fresh and ambient) | 13 days | 8 days |
| % service level (% of volume requirement delivered from the RDC) | 98.5% | 99.5% |
| % of lines in stock on shelf at the store | 95% | 99% |
| number of “new to the world” private label product introductions per annum (for a large store of 15,000 SKUs) | 50 | 250 |
| % of sales generated by private label products of equal or superior quality to the branded offering | 30% | 50% |
| ratio customers : store employees – enhanced customer service strategy | 400:1 | 300:1 |
| ratio customers : store employees – enhanced retail productivity strategy | 400:1 | 500:1 |
| sales per square metre/week | \$255 | \$300 |
| % of sales covered by joint category management | 2% | 15% |
| % of lines that generate 80% of sales | 35% | 40% |
| average customer time at the checkout | 5 minutes | 3 minutes |
| length of average ‘functional’ major shopping trip | 90 minutes | 70 minutes |
| % of loyal primary shoppers (i.e. those spending >50% of their spend at a store) | 30% | 40% |
| % of sales per annum from new / refurbished stores | 5% | 7% |
| % of sales from new retail modes | 0% | 5 – 10% |
| average build cost of new superstore (5500m ² – excluding land cost) | \$15.0 million | \$13.5 million |
| % of manufacturers that generate 80% of sales | 30% | 20% |
| Sales per full-time employee per annum | \$200,000 | \$260,000 |
| average basket size per shopping trip | \$40 | \$45 |
| % of sales to individually known customers who are served on a genuinely 1:1 basis | 0% | 30% |

5.7 WHAT COMPETENCIES WILL THE EXCELLENT 2005 FOODSTORE NEED ?

The excellent 2005 foodstore will need a wider set of competencies and capabilities.

The table below shows how the importance of particular competencies is likely to change:

| Competency | Relative importance in 2005 compared to 1996 | Why |
|--|--|--|
| Supply chain management | Less | Critical as ever but proportionally less so as the game moves 'beyond efficiency' |
| Store location | Less | Fewer new stores being opened |
| Employee management and development | More | Staff will be a key cost but a critical means of delivering the brand and service proposition |
| Information systems/Multimedia | More | The rapid development of the multimedia revolution |
| Customer relationship management | More | Competition for share of customer will intensify |
| Brand management and corporate marketing | More | Brand will be a key differentiator Customer expectations of corporate behaviour will increase |
| Store operations | Less | Critical but proportionally less important as the game moves 'beyond efficiency' |
| Buying and merchandising/ category management | Less | Critical but proportionally less important as the game moves 'beyond efficiency' |
| Partnership management | More | Partnerships will be more important in achieving excellence |
| Innovation and product development | More | Reflects need to differentiate to survive |

However it is important to stress that competencies alone are not enough. Competitive advantage will be as much about the way competencies are integrated and uniquely linked together. Competitors might be able to monitor and benchmark performance in individual areas but it is much more difficult to monitor and benchmark how the whole is greater than the sum of the parts.

FORMAT PROSPECTS



- 6.1 Competing for occasions
- 6.2 Outline implications for formats of the main forces for change
- 6.3 No compromise local convenience

CHAPTER 6: FORMAT PROSPECTS

"There can be as many prizes as runners. Renoir, Picasso, Calder, Serat and Chagall were all enormously successful artists, but each had an original and distinctive style. In no way did the success of one preordain the failure of another. Yet each artist spawned a host of imitators. In business, as in art, what distinguishes leaders from laggards, and greatness from mediocrity, is the ability to uniquely imagine what could be"

Hamel & Prahalad¹

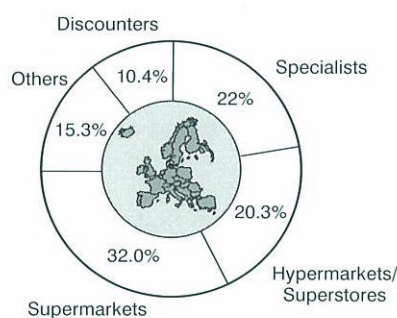
CHAPTER SYNOPSIS

- Future format shares are not preordained. The likely consumer and external forces over ten years represent a mix of threats and opportunities for all formats.
- Formats that compete on wider fronts such as hypermarkets and superstores generally face a broader range of threats and opportunities. Formats such as discounters have relatively more defensible positions but less upside potential;
- However, in many markets across Europe unfinished trends towards retail concentration will continue;
- Success and failure will be more about the winners and losers within a format type and different retail brands competing across formats than about one format triumphing over others;
- We envisage a 'multi-channelled' world in which no one format dominates growth and where the emphasis is on innovative new formats and channels, the enhancement of existing sites and the blurring of what is a foodstore. The term format will become less and less useful as the imperative for differentiation and innovation results in more unique variations and hybrids;
- A key trend is towards the increasing importance of 'no compromise local convenience'; the consumer demand for convenience without sacrificing quality, range and price, whereas historically convenience has involved quite steep trade-offs on these dimensions;
- The advent of new modes is a vital new dynamic. It creates the opportunity for 'combination formats' making an offer competitive for a wide range of occasions.

This chapter assesses what the driving forces and competitive agenda mean for particular foodstore formats.

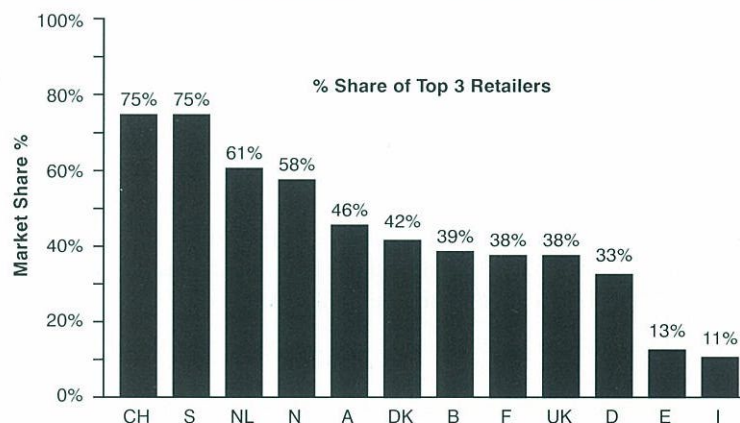
Format shares across Europe differ significantly as shown overleaf although 85% of European food sales currently are concentrated through five major formats and most national markets are highly concentrated.

Format shares across Europe (1995)



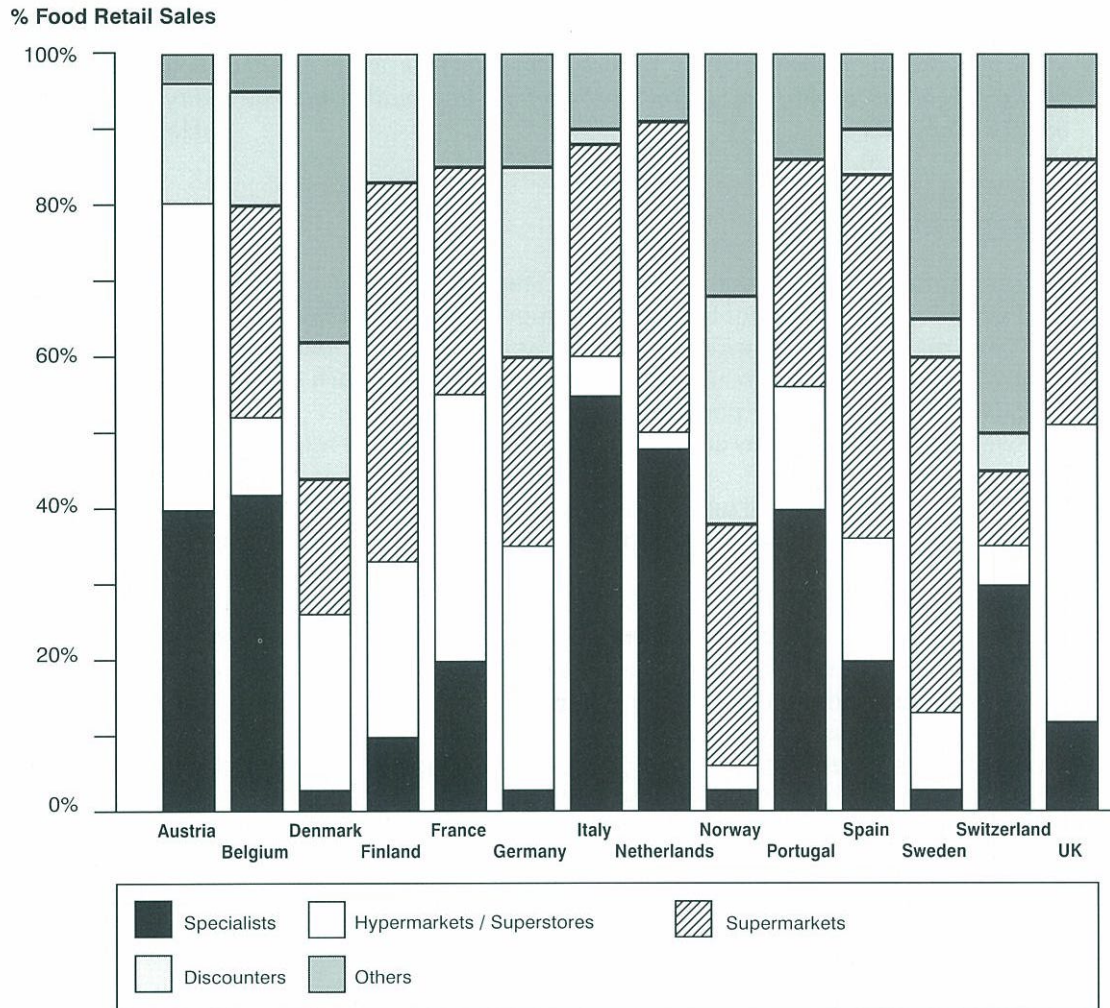
Source: Euromonitor/OECD

Grocery retail concentration across Europe



Source: Nielsen Europa, 1993

Food Retail Sales by Format Type 1993



N.B. The Country data in the chart is made up from different sources and is not always strictly comparable particularly when looking at the specialist sector

Source: Euromonitor

The question of format prospects is frequently interpreted as a matter of forecasting how format shares will move. In this respect there are, in particular, unfinished trends towards retail concentration that will no doubt continue. Various forecasts are available that extrapolate these trends and make judgements about, for example, at what level discounter growth will peak.

In the context of this study the concentration is on the underlying dynamics of what will impact format prospects and less on numeric format share predictions. This emphasis is based on the following beliefs:

- *future format shares are not pre-determined* The prevailing consumer and external forces over ten years represent both threats and opportunities, depending on how they are tackled by foodstore operators (see 6.2 below);

- *it is wrong to characterise the essence of competition as being just about different formats competing with each other*, e.g. discounters v superstores, supermarkets v convenience stores. The battle is more about:
 - what happens within particular formats (in particular the speed of the Darwinian process of efficiency driving out inefficiency)
 - different retail brands and business systems competing across formats (see Chapter 5)
 - the invention or reinvention of what particular formats are.
- *the term format will become less and less useful as the imperative for differentiation and innovation results in more unique variations, twists and hybrids;*
- *it is missing the point to define formats from a predominantly operational viewpoint*, e.g. according to square meterage and number of car parking spaces etc. The essential perspective is to characterise formats in terms of their capacity to satisfy particular dimensions of consumer needs (see 6.3 below). In addition, the discounting phenomena, for example, cannot be measured just by the share of discount formats as it has promoted other formats to convert a proportion of their turnover into discount lines;
- *'food' can less and less be considered a closed system obeying neat and tidy definitions to suit market researchers and analysts.* Examining format shares increasingly falls foul of the question, 'share of what?'. Foodstores operate in a complex competitive web across many product and service categories.

Looking forward, however, a number of broad conclusions can be drawn about format prospects:

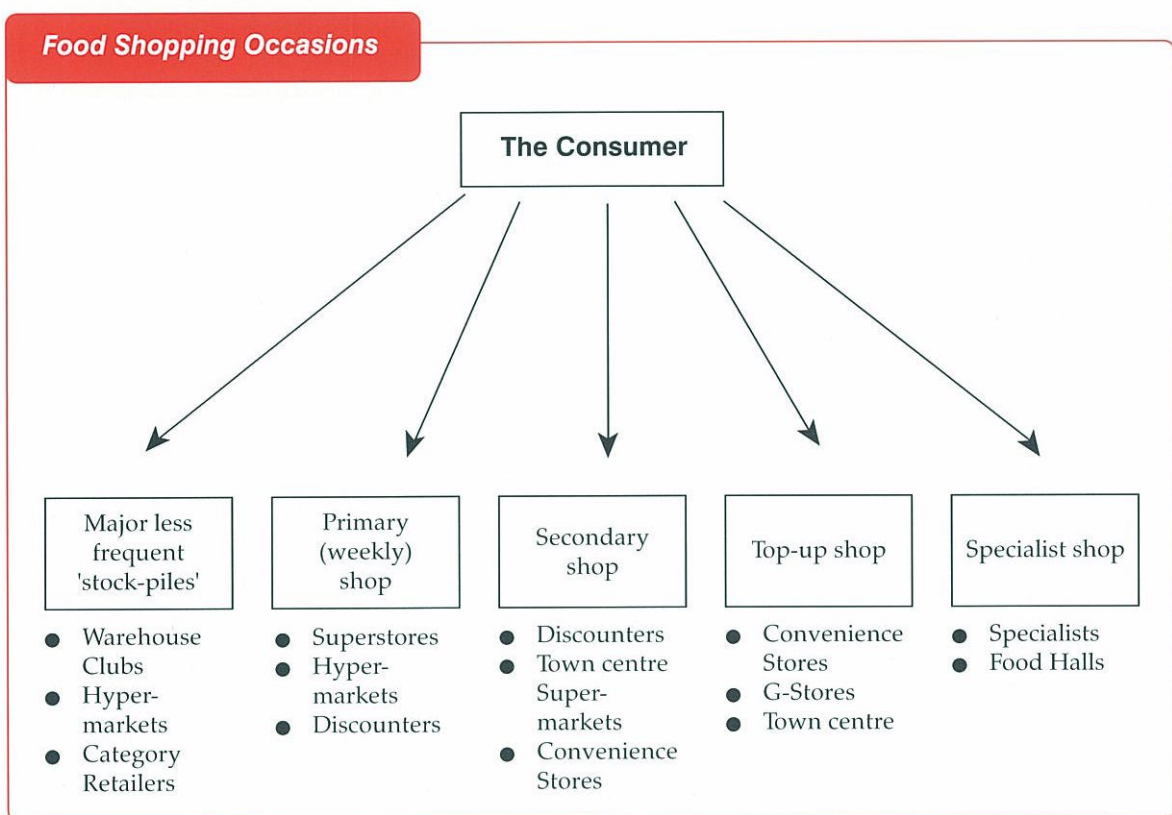
- *no one format is likely to dominate growth.* No single new mega trend will dictate structural shifts as was arguably the case with say superstore and hypermarket development in some parts of Europe;
- *the overall shift is to a more 'multichannelled' foodstore world reflecting the increased diversity of food shopping occasions.* The increasing requirement to be competitive for particular sets of occasions will hasten the demise of foodstores operating in the bland middleground, i.e. being averagely competitive for a wide range of occasions rather than being the best choice for a limited number;
- *one key trend is towards the increasing importance of 'no compromise local convenience';* the consumer demand for convenience without sacrificing quality, range and price, whereas historically convenience has involved quite steep trade-offs on these dimensions. There are various routes through which 'no compromise local convenience' can be delivered (see 6.3 below);
- *the rate of change will be held back by two key 'drag factors':*
 - the local intensity of discount competition which, where it is strong, tends to make the local market more price sensitive and affects the extent to which foodstores feel comfortable in competing on quality not price
 - the inertia of the fixed nature of store assets and the limits to change imposed by planning controls etc.
- *the advent of new modes is an important new dynamic* that has an impact across all existing formats (as described in Chapter 4);
- *to the extent that supply exceeds demand the emphasis must increase on optimising the productivity of and value created from within existing sites.*

The rest of this chapter looks at key aspects of the above under the following headings:

- 6.1 Competing for occasions.
- 6.2 Outline implications for formats of the main forces for change.
- 6.3 No compromise local convenience.

6.1 COMPETING FOR OCCASIONS

It is vital to be uniquely competitive for particular types of occasions rather than averagely competitive across the spectrum. Various broad occasion types can be defined:

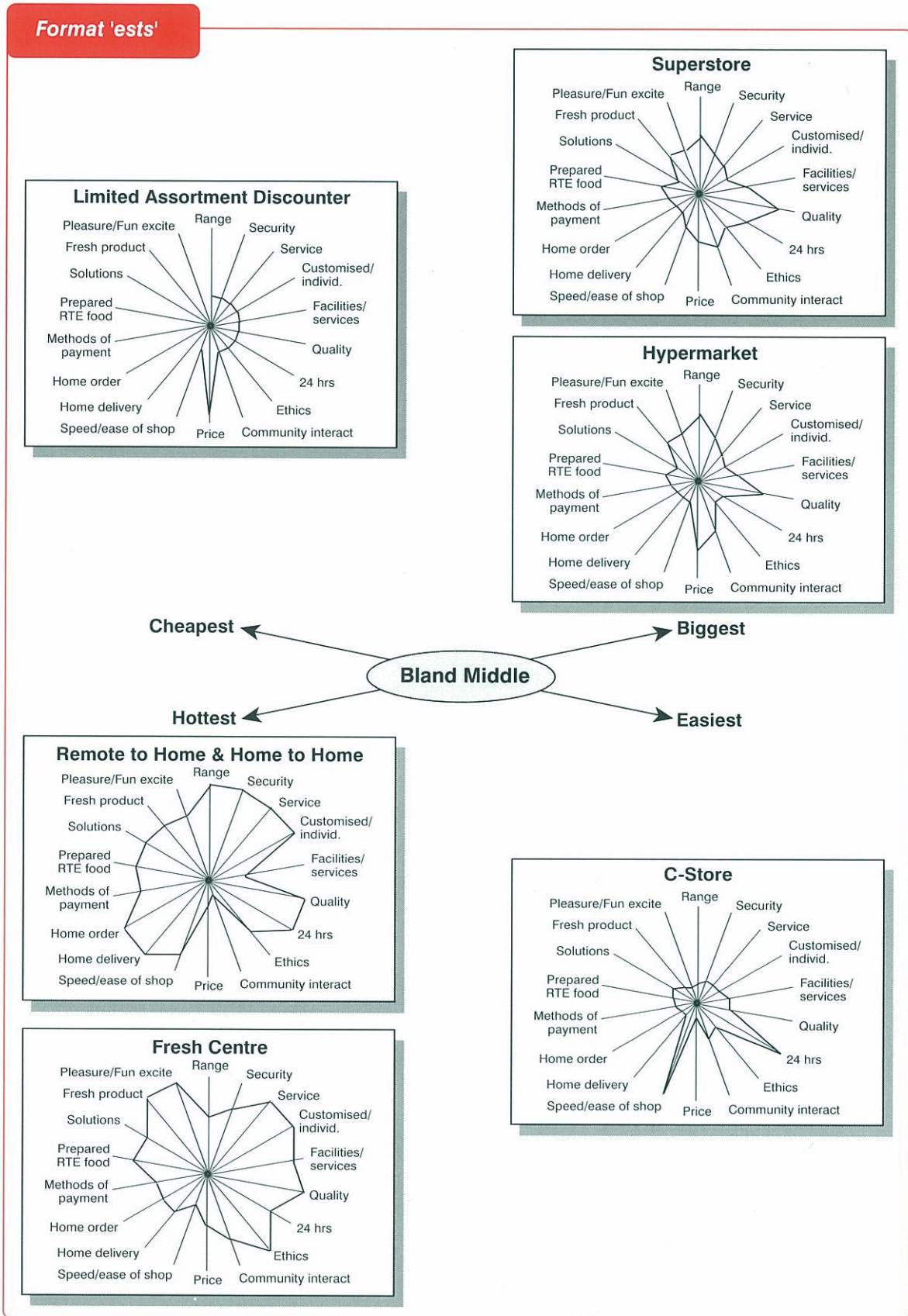


Across Europe consumers already food shop on average at 3 – 5 different stores reflecting in part different occasions and in part loyalty patterns within occasion types.

| Country | Number of different stores visited in 12 week period | % of shoppers using more than 5 different stores |
|---------------|--|--|
| Germany | 4.7 | 41% |
| France | 3.2 | 5% |
| Italy | 3.1 | n / a |
| Great Britain | 3.7 | 31% |
| Belgium | 4.2 | 44% |

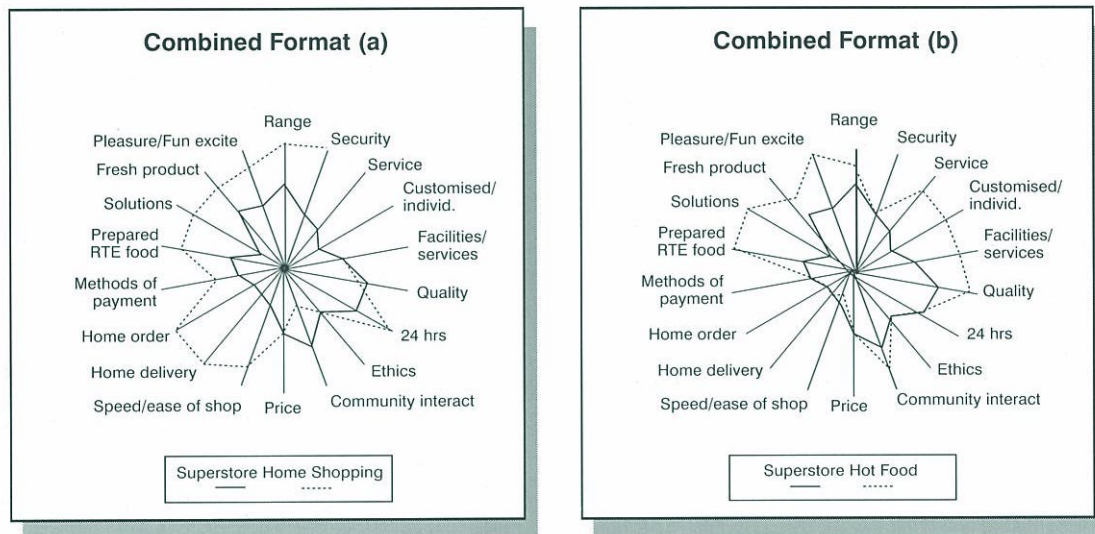
Source: AC Nielsen

Formats succeed by picking out the critical needs of particular occasions and by being the best at meeting these needs, as shown below:



Taking this forward, new modes provide the opportunity for formats to expand the range of occasions and needs they serve competitively, by creating new combinations as illustrated below.

The Expanded 'Web Print' of Combined Formats



6.2 OUTLINE IMPLICATIONS FOR FORMATS OF THE MAIN FORCES FOR CHANGE
































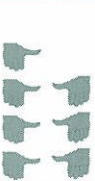


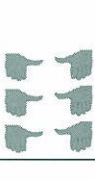






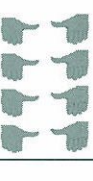
















The forces for change that will impact foodstores to 2005 do not predetermine who will win and lose.

The diagram overleaf takes the key forces for change identified in Chapter 2 and evaluates at a high level the degree of threat and opportunity implied by each for different formats.

The diagram overleaf suggests:

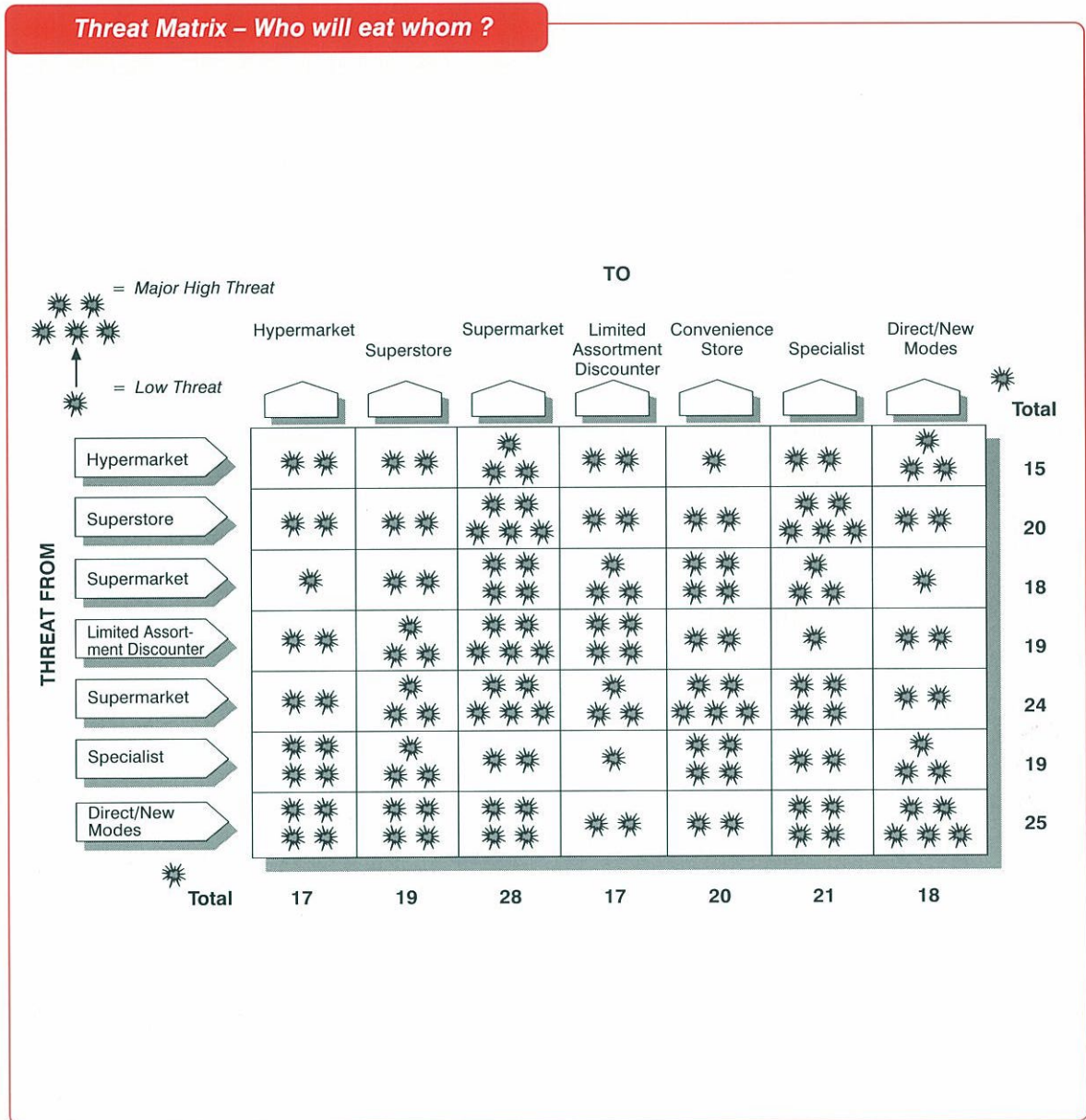
- each format faces a real mix of threat and opportunity;
- the larger share formats (e.g. hypermarkets and superstores) face a wider set of threats;
- new modes are all about opportunity;
- more niche formats such as discounters are less exposed to both threats and opportunities.

The Driving Forces – Threats and Opportunities by Format

| | Hypermarket | Superstore | Supermarket | Limited Assortment Discounter | Convenience Store | Specialist | Direct / New Modes |
|--|---|---|---|--|---|---|---|
| <p> = Threat</p> <p> = Opportunity (0 – 5 scale)</p> | | | | | | | |
| 1. Underlying consumer problems with the existing food shopping process |  |  |  |  |  |  |  |
| 2. The emergence of realistic new modes of food shopping |  |  |  |  |  |  |  |
| 3. Heightened external competition for foodstores |  |  |  |  |  |  |  |
| 4. Intensification of internal competition within the existing system |  |  |  |  |  |  |  |
| 5. The long term erosion of mass marketing and its replacement by mass customisation |  |  |  |  |  |  |  |
| 6. The certainty that established or foreseeable consumer trends will make the food retailing environment more challenging |  |  |  |  |  |  |  |
| 7. The possibility of more radical socio-economic fracture lines opening up |  |  |  |  |  |  |  |
| 8. The challenging regulatory and political environment |  |  |  |  |  |  |  |

Source: Coopers & Lybrand

A related way to consider format dynamics is to look at the potential level of threat that formats pose each other.



While analytically crude, clear messages emerge from the distribution of 'threat points' in the previous diagram.

| Format | Threat points | | | | Interpretation |
|-------------------------------|-----------------|---------------------|-------------------|----------------------------------|--|
| | For (max 35) | Against (max 35) | Total (max 70) | Balance of for and against | |
| Hypermarket | 15 | 17 | 32 | (2) | Reasonably defensible but upside limited – on balance will be increasingly constrained |
| Superstore | 20 | 19 | 39 | 1 | Strong player in widespread open competition |
| Supermarket | 18 | 28 | 46 | (10) | Generally under pressure from cheaper more convenient or wider offers |
| Limited Assortment Discounter | 19 | 17 | 36 | 2 | Operates in defensible market zone but limit on upside potential |
| Convenience store | 24 | 21 | 45 | 3 | Exciting opportunities but in highly competitive zone |
| Specialist | 19 | 20 | 39 | (1) | On balance under pressure but grounds for resilience |
| Direct/new modes | 25 | 18 | 43 | 7 | Competitive possibilities across the board |

Looking at the main formats the table overleaf summarises key points and 'knife edge' decisions which require individual operators to make a firm policy stance along one direction or another.

| Format | Hypermarket | Superstore | Discounter | Convenience Store |
|--------------------------------|---|--|--|---|
| Underlying Strengths | <ul style="list-style-type: none"> ● "Part of life" ● Destination shop ● Wide food/non food range ● Value prices ● Economies of scale | <ul style="list-style-type: none"> ● "One shop" grocery store ● Strong supply chain efficiency ● Brand strong and transferable ● Focus on food | <ul style="list-style-type: none"> ● Focused offer ● Operational efficiency ● Price | <ul style="list-style-type: none"> ● Long opening hours ● Ease of access ● Meet top-up/emergency needs |
| Threats | <ul style="list-style-type: none"> ● Anonymous format; limited consumer interaction ● Planning legislation limiting or curtailing growth ● Depth of providing solution shopping | <ul style="list-style-type: none"> ● Increasingly all the same ● Planning restrictions / saturation ● Solutions delivery limited by mass market appeal | <ul style="list-style-type: none"> ● Mainstream players getting closer on price ● Increased sector competition ● Brand / Own label battle | <ul style="list-style-type: none"> ● Increasingly competitive sector ● Security issues ● Opening hours USP being eroded |
| Factors to watch | <ul style="list-style-type: none"> ● Potential for customisation of service ● Add fun / entertainment ● More interactivity ● How to differentiate food offering vs. specialists | <ul style="list-style-type: none"> ● Add more customised service ● Capitalise on food values ● Interactive approach | <ul style="list-style-type: none"> ● Amendments in planning legislation ● Fragmentation of discount format ● Economics of format not suited to broad range offering | <ul style="list-style-type: none"> ● Price / economics ● Over dependence on low margin products ● Ability to flex range throughout the day |
| Knife edges | <ul style="list-style-type: none"> ● Customise or discount ● Interactive option – home delivery or not ● Maximise destination shop or cut costs | <ul style="list-style-type: none"> ● Increased range / service vs increased innovation ● Home delivery or not ● Brand vs Retailer brand | <ul style="list-style-type: none"> ● Continued focus vs geographic spread ● Multi format vs focus | <ul style="list-style-type: none"> ● C store vs G store ● Where-to-if superstores open 24 hours / day |
| Offensive opportunities | <ul style="list-style-type: none"> ● Capitalise on strength of brand name ● Improve effectiveness of operations | <ul style="list-style-type: none"> ● Capitalise on strength of brand name ● Further supply chain improvements | <ul style="list-style-type: none"> ● Continued improvement in effectiveness ● Maintain price edge | <ul style="list-style-type: none"> ● Potential as remote hubs ● Managing time / location/ lifestyle fit |
| Net Prospect | <ul style="list-style-type: none"> ● Danger of becoming a dinosaur if don't minimise costs and maximise consumer investment | <ul style="list-style-type: none"> ● Potential for strong consumer franchise but will lack of format development be damaging? ● Depends on ability to innovate | <ul style="list-style-type: none"> ● Substantiable format economics strengthens format prospects | <ul style="list-style-type: none"> ● Good for major operators |

6.3 NO COMPROMISE LOCAL CONVENIENCE

The central idea of 'no compromise local convenience' is that the European consumer will increasingly respond to offers which minimise the current widespread trade off between local/occasion convenience and quality, range, price etc. The factors that underpin this include:

- the increasing premium put on convenience against a background of pressurised lives and less tolerance of dead time;
- possible future backlashes against car usage;
- the massive scope to increase the range, quality and price competitiveness of locally convenient offers.

This shift implies good growth prospects for conventional convenience and garage stores (although in many parts of Europe these formats currently have a low penetration) but it is also about other manifestations including:

- extensions by leading foodstore retailers into convenience sites where their branding and operating efficiency confers real competitive advantage. Tesco in the UK, for example, have embarked on a major programme of openings for their Metro and Express concepts (for city centre and petrol station sites respectively);
- shrinking catchment areas for superstores and supermarkets based on superior operating and construction economics;
- existing operators of many non-food formats such as wine and beer shops and pharmacies concluding that food and convenience will be increasingly essential to their future; Boots in the UK, for example, have added food to their offering including sandwiches, ready meals and snacks;
- new generations of specialist shops which augment their specialism by convenience, e.g. through longer opening hours and direct delivery;
- the use of new technology and new modes to add new dimensions of range, quality and service, e.g. by using petrol stations or convenience stores as pick up points.

Inevitably perhaps the drive to offer these forms of convenience will result in pockets of over supply and extreme competition. Related to this, the drive to reach the goal of 'no compromise' convenience puts a premium on operational efficiency to make the economics work.

CHAPTER 7: END NOTE

*"The world is not an unsolved puzzle, waiting for the occasional genius to unlock its secret.
The world, or most of it, is an empty space waiting to be filled"*

Charles Handy¹

The study has highlighted a series of inter-related forces that define the 2005 operating environment for the foodstore.

These forces collectively imply a diverse set of possible futures for the foodstore and the prospect of change to the whole system of getting food to consumers.

The challenge to management is therefore demanding and complex. For a foodstore there will be many ways to win and many ways to lose. New ways of looking at the market, new forms of working and organisation and new competencies will be required.

In this regard and as an end note to the study the table overleaf suggests a checklist of 'Readiness for the market of 2005'. 25 out of 25 is the target for those who want to operate the best foodstores of the future.

Readiness for the market of 2005

| | | ✓ or X |
|----|---|--------|
| 1 | All the critical forces for change likely to impact the business are understood | |
| 2 | A broad definition of competition is actively worked to | |
| 3 | The organisation is at the leading edge of using IT to develop a visible advantage | |
| 4 | The organisation understands the multimedia and information revolution and is in contact with the key players | |
| 5 | Core processes operate effectively across the organisation | |
| 6 | Why customers buy is understood as well as what they buy | |
| 7 | Marketing is a core competence and pervades the organisation | |
| 8 | The organisation is genuinely consumer centric | |
| 9 | The organisation is clear about its continued right to exist | |
| 10 | The organisation is capable of delivering a stream of genuine innovations | |
| 11 | The organisation is clear about how its brand can successfully evolve | |
| 12 | The organisation is recognised as the leader in certain important categories | |
| 13 | The organisation has a stream of initiatives in the pipeline to keep it ahead in its selected areas of competitive advantage | |
| 14 | The organisation is tuned into all the relevant learning to be gained from new modes experiments globally | |
| 15 | The company has a unique and distinctive consumer proposition and mission | |
| 16 | Customer loyalty is the true creed of the business | |
| 17 | The business operates at or near its productivity edge | |
| 18 | The organisation relates to its best customers on a 1-1 basis | |
| 19 | The organisation has a unique customer service ethos that stands comparison to that in any sector | |
| 20 | The range offer is genuinely unique | |
| 21 | The organisation is clear about who are its core consumers and how it can appeal to and communicate effectively with each sub group | |
| 22 | The organisation has a long term broad perspective that covers the whole food access and preparation process | |
| 23 | The organisation has transparent and defensible positions on all key consumer and ethical issues | |
| 24 | The instore experience offers a leading balance of 'fun and run' | |
| 25 | The organisation is operationally and culturally prepared to adapt to unforeseen events and circumstances | |

APPENDICES



- A** References
- B** Schedule of contributors
- C** Glossary
- D** Underlying consumer problems with the existing food shopping process
- E** Potential consumer concerns with direct food shopping
- F** Checklist of initiatives to re-engineer the food shopping process

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CHAPTER 2

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APPENDIX E

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APPENDIX B: SCHEDULE OF CONTRIBUTORS

The study has drawn heavily on a series of interviews and discussions. In this respect we are very grateful to:

Oscar Agostini, Supermercati GS, Italy.
John Beaumont, Institute of Grocery Distribution, UK.
Bernd Bothe, Metro, Germany.
Margaret Cameron-Waller, CEST, UK.
Marion Deerlove, UK Government Foresight Project, UK.
Peter Dettmann, ICA Handlarnas AB, Sweden.
David Fraser, Fitch, UK.
Mike Groves, Retailing World International, UK.
Bernhard Heidel, Rewe, Germany.
Hermann Hasen, Migros, Switzerland.
David Hill, BT, UK.
Don Jackson, ICL, UK.
Timu Karake, Kesko Limited, Finland.
Hans-Joachim Körber, Metro, Germany.
Violet Konkle, Loblaws, Canada.
Alessandro Lago, Iperlombardia Coop, Italy.
Donald MacDonald, Pilot Software, UK.
Liz Manderville, RMDP, UK.
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Richard Piper, Europanel, UK.
Hermann Poehlmann, Tengelmann, Germany.
Jonathan Reynolds, OXIRM, UK.
Alun Roberts, ICL, UK.
Andy Robson, Centre for European Supply Chain Strategy, UK.
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Neil Whitehead, Fitch, UK.

We are also indebted to Judy Kozacik of FMI for her help in data collection and research.

APPENDIX C: GLOSSARY

| | |
|----------|--|
| AIDS | Acquired Immune Deficiency Syndrome |
| BSE | Bovine Spongiform Encephalopathy |
| C Store | Convenience Store |
| CBI | Confederation of British Industry |
| CD-ROM | Compact disc read only memory |
| CEO | Chief Executive Officer |
| CIES | Centre International des Entreprises de Secteur Alimentaire (The Food Business Forum) |
| ECR | Efficient Consumer Response |
| EDI | Electronic Data Interchange |
| EU | European Union |
| FMCG | Fast Moving Consumer Goods |
| FMI | Food Marketing Institute |
| GDP | Gross Domestic Product |
| G-STORES | Garage Stores |
| HGV | Heavy Goods Vehicle |
| IT | Information Technology |
| KSI | Known Specification Items |
| KQI | Key Quality Indicators |
| OECD | Organisation for Economic Co-operation and Development |
| PC | Personal Computer |
| PDA | Personal Digital Assistant |
| PR | Public Relations |
| RDC | Regional Distribution Centre |
| RSPCA | Royal Society for Prevention of Cruelty to Animals |
| RTE | Ready to eat |
| SKU | Stock Keeping Unit |

APPENDIX D

Underlying consumer problems with the existing food shopping process

The tables overleaf look at consumer irritants and problems at each stage of the food shopping process.

This illustrates that:

- store based activities are just part of the total process;
- there are a myriad of possible consumer irritants and concerns to manage.

Underlying consumer problems with the existing food shopping process

| | 1. Plan shopping trip ➡ | 2. Decide where to shop ➡ | 3. Travel to store ➡ | |
|--|---|--|--|---|
| Sub-processes | Take stock Decide future needs Prepare list | What do I want How much time Where am I now Where else do I need to go | Bus/walk/cycle/taxi/car Arrive at shop Enter shop Find basket/shopping cart | |
| Typical % time investment (C & L estimates) | 10% | 2% | 10% | |
| Dissatisfaction meter | Medium | Low | High – no added value | |
| Underlying consumer needs | <ul style="list-style-type: none"> ● Accurate forward planning | <ul style="list-style-type: none"> ● Shop that fits particular set of occasion needs | <ul style="list-style-type: none"> ● Easy to travel to ● Limited time involved ● Easy to access store | |
| Representative | | | Own car | Foot/public/taxi |
| Hit list of problems | <ul style="list-style-type: none"> ● Need decent time to take stock ● Writing shopping list to match store layout ● Discard short coded products ● Meal solutions ● What do I actually need? ● Estimating 'run outs' ● Planning balance of top up's vs mainshops for the month | <ul style="list-style-type: none"> ● Limited choice of stores ● Stores in-appropriate for all requirements | <ul style="list-style-type: none"> ● Lack of free car parking ● Congested car parks ● Poor signage ● Low driver concentration ● Parking bays too narrow ● Very busy ● Difficult to park close to the store ● Takes time to get there ● Special bays e.g. disabled taken by selfish other customers ● Getting to door without getting soaking wet ● Right shopping cart not available ● Hard to get out ● Having change for shopping cart ● Shopping cart dirty/wet ● No baskets available | <ul style="list-style-type: none"> ● Poor public transport ● Greater time investment ● Cost of fare ● Poor pedestrian access ● No clear pedestrian walkways ● Right shopping cart not available ● Hard to get shopping cart out ● Having change for the shopping cart ● Shopping cart dirty/ wet |
| Minority group issues | <ul style="list-style-type: none"> ● Large families and difficulty forward planning ● Single households | <ul style="list-style-type: none"> ● Rural communities ● Urban dwellers | <ul style="list-style-type: none"> ● Elderly ● Disabled ● Non car owners ● Parents with children | |

Underlying consumer problems with the existing food shopping process (continued)

| 4. Select purchases ➔ | | | | |
|---|---|--|--|--|
| Sub-processes | <ul style="list-style-type: none"> ● Plan route around store ● Find products ● View items ● Make selection ● Queue at service counters | | | |
| Typical % time investment (C & L estimates) | 40% | | | |
| Dissatisfaction meter | Mixed – many small irritations, time consuming | | | |
| Underlying consumer needs | <ul style="list-style-type: none"> ● Needs anticipated and met ● Freedom/control of self selection ● Familiar store environment/ease of navigation ● Consistent and comfortable offering ● Speed ● Enjoyment ● Full stock | | | |
| Representative | Range | Layout/selection | Familiar environment | Consistent offering |
| Hit list of problems | <ul style="list-style-type: none"> ● Products not available ● Hard to locate products ● Hard to identify products e.g. vegetarian ● Range too complex ● Understanding quality/price trade-off ● Few easy “meal solutions” ● Unnecessary duplication ● Niche products not available ● Limited regional specialities ● Lack of innovation ● Inappropriate pack sizes ● Re-design of packaging causing confusion ● Easter eggs on sale straight after Christmas | <ul style="list-style-type: none"> ● Frozen food location ● Bulky items location ● Queuing at service counters ● Queuing for high security items e.g. videos ● Congestion hot spots ● Shelves too high ● Aisles too narrow ● Re-filling trolleys on shop floor ● Associated products not displayed together ● Layout not like shopping list ● Illogical or jumbled merchandising ● Gaps between shelves so narrow so hard to get the product out ● Products stacked too high on top shelf ● Store too crowded ● Seasonal ranges not displayed prominently | <ul style="list-style-type: none"> ● Re-locating products to new aisles ● Re-merchandising fixtures ● Discontinuing products without warning ● Poor signage ● Broken trolleys ● Having to put clothing/non food items with food items in shopping cart ● Store seems dirty compared to usual ● New and heavily advertised products not flagged ● Re-naming familiar brands ● Inconvenience during refurbishment ● Demonstration units blocking aisles | <ul style="list-style-type: none"> ● Poor quality in key areas (KQI's) ● Product unavailable ● Unclear pack information ingredients/nutrition ● Lack of pack information ● Poor price discount progression between pack sizes ● Illogical quality price trade offs ● Price comparisons made difficult ● Irrelevant promotional offers ● Promotions too complex ● Promotional threshold of multisavers too high ● Un-inspiring offers ● Inappropriate promotional mechanics for new lines |
| Minority group issues | <ul style="list-style-type: none"> ● Elderly ● Child pester power | | | |

Underlying consumer problems with the existing food shopping process (continued)

| | 5. Pay for purchases ➔ | 6. Use other store facilities ➔ | 7. Return home ➔ |
|--|---|---|--|
| Sub-process | <ul style="list-style-type: none"> ● Select checkout ● Queue ● Unpack shopping cart ● Pack bags ● Pay | <ul style="list-style-type: none"> ● Customer service desk ● Restaurant ● Baby changing/toilets ● Concessions ● Re-cycling unit | <ul style="list-style-type: none"> ● Pack car/go to bus stop ● Travel home ● Unpack and put goods away |
| Typical % time investment (C & L estimates) | 10% | 8% | 20% |
| Dissatisfaction meter | High – necessary evil | Low – a matter of choice usually | High – no added value |
| Underlying consumer needs | <ul style="list-style-type: none"> ● Minimum time ● Remain in “control” | <ul style="list-style-type: none"> ● Additional facilities reflect overall quality of store | <ul style="list-style-type: none"> ● Limited time involved |
| Representative Hit list of problems | <ul style="list-style-type: none"> ● Lack of adequate checkouts ● Not enough checkouts open ● Bottle neck area ● Staff not authorised for all purchases ● Un-barcoded/un-priced products ● Realisation of prices of random weight items e.g. grapes \$4/bunch, pick n mix sweets ● Cash receipts roll-runs out ● Cash collection delays service ● Employees can't identify produce etc. ● Inexperienced employees on express ● Complexity of transaction, payment, coupons, loyalty card, cash withdrawal ● Untrained bag-packers ● Pressurised by operator speed ● Try to pack bags for easy un-packing ● Realise forgot items rush back or not? ● Sloppy handling of products ● Inaccurate input/scanning ● Double handling unnecessary ● Difficult to write payment slip cramped up/ no pen available ● Children become more fractious ● Fragile products crushed | <p>Customer Services</p> <ul style="list-style-type: none"> ● No service desk ● Complaint not acknowledged ● Need to queue again ● Made to feel defensive ● No clear procedures/guidelines ● Management not involved ● Employees unable to make decision <p>Concessions</p> <ul style="list-style-type: none"> ● Poor service ● No recourse to store if not acceptable ● Dry cleaning/photos not ready in the designated time <p>Facilities</p> <ul style="list-style-type: none"> ● Lack of basic facilities ● Inadequate for number of people ● Dirty toilets ● No baby facilities ● Cafeteria too expensive ● No creche ● No recycling facilities ● Recycling bins not emptied frequently ● Creche too expensive ● Poor quality of food in cafeteria, why not as good as the store? | <p>Travel hassles as per journey to store</p> <ul style="list-style-type: none"> ● Can't carry all requirements ● (average weekly shop weighs 40 kg) ● Need to walk to a distant shopping cart bay to leave shopping cart ● Money gets jammed in shopping cart ● No bin to clear any litter you have left in shopping cart <p>Unpacking:</p> <ul style="list-style-type: none"> ● Fragile items have got crushed ● Frozen/chill foods warmed up ● Insufficient space in fridge ● Plastic bags everywhere (packaging waste) ● Re-arrange cupboards ● Realise that items forgotten ● Realise goods are damaged out of code ● Realise left item at checkout which you have paid for ● Realise been over-charged ● More handling loading bags in the car |

APPENDIX E

Potential consumer concerns with direct food shopping

| Consumer concerns issues/negatives | Intrinsic block | Erodable block | Assesment |
|--|-----------------|----------------|---|
| 1. The difficulty of easily 'surfing' around thousands of skus on a monitor and efficiently executing an order | | ✓ | <p>This is an important negative The problem is summed up by editor of Supermarketing</p> <p>"not only did it take me 10 minutes to try and buy just one grapefruit on the system, I wasn't even sure then whether I had purchased what I wanted"</p> <p>However, future generations of monitor based services will be distinguished by improvements in:</p> <ul style="list-style-type: none"> ● cruisability ● versatility ● entertainment and engagement ● speed ● smartness (the ability of the system to learn what the user likes and dislikes, wants and needs and as a result adds value in the solution and decision process) <p>The danger is that early services do not earn consumer credibility and that this damages long term acceptance. Although in getting things going as Tom Peters has observed "if a thing's worth doing it's worth doing badly"</p> |
| 2 The lack of enjoyment of monitor based shopping | | ✓ | See above. The same argument applies |
| 3 The loss of the social, leisure, people watching and people contact side of shopping | ✓ | | <p>Undoubtedly a negative for the significant percentage of the population who value these aspects of shopping. For most there will be a limit to the time they want to spend in front of a monitor. Teleworkers for example often want to go shopping as a break from monitors.</p> |
| 4 The inability to directly see, feel, touch, and smell products. The inability to judge the right quantity to order without direct visual contact. Loss of control in choosing fruit and vegetables is the best condition and of the desired grade. | ✓ | ✓ ✓ | <p>This factor will militate against fresh foods going direct. However the effect will likely erode over time as experience and trust in direct services increases:</p> <p>It is a question of trust in the store to provide consistent quality. It is also an education point over time about vegetable grading systems etc.</p> |

| Consumer concerns issues/negatives | Intrinsic block | Erodable block | Assessment |
|---|-----------------|----------------|---|
| 5 The loss of control over choosing sell by dates, special offer packs etc. | | ✓ | This will be a negative factor but one that a well designed direct offer can diminish over time. |
| 6 The loss of the impulse purchase opportunity. | | ✓ | In many ways a retailer concern not a consumer concern. Around Europe up to 70% ¹ of what ends up in the basket is not pre-planned. Studies show that the use of lists reduces spend. Historically the opening of self service supermarkets increased sales four-fold compared with equivalent service shops. However impulse and serendipity can be built into a screen-based service. A well designed system can strike a sensible balance between impulse and excess intrusion. |
| 7 The concern about getting the best offers and prices. | | ✓ | Service providers will either have to: ● take particular care to build in the best deals and market this fact or ● accept that direct will be targeted at those who are less offer sensitive |
| 8 The difficulty in using coupons etc. | | ✓ | A well designed system will be able to offer a virtual coupon system or equivalent. Services like Peapod still allow the customer to use coupons. |
| 9 Concern about products being bruised or damaged in transit | | ✓ | A question of trust, worthwhile guarantees and experience. |
| 10 Loss of personal contact with the foodstore. | ✓ | | A consideration for consumer and food store The customer service standards of delivery are important. If delivery is made by a third party there are two implications for foodstore owners: ● delegating customer services to a third party carries a control risk ● the third party starts to own the relationship. |
| 11 The inability to make alternative choices if something is not in stock. | (✓) | ✓ | A smart real time system will be able to edit out this problem. |

| Consumer concerns issues/negatives | Intrinsic block | Erodable block | Assesment |
|---|-----------------|----------------|--|
| 12 Concern about the integrity of chilled and frozen products in delivery | (✓) | ✓ | Control over the process to the customer's door is possible – from there, there is a risk of sub standard storage conditions and important food safety implications arise. |
| 13 The risk of getting out of touch with what's new and what other people seem to be buying. | | ✓ | A smart system can keep the consumer in touch by targeting direct communications about the categories that are of interest to the individual. |
| 14 The uncertainty of knowing when orders will be delivered, and the dislike of the waiting time involved. | ✓ | ✓ | No direct delivery system will better the complete control of self service over lead time. There are a series of trade offs that the market will have to work out between drop densities, consumer responsiveness, costs and critical mass. . |
| 15 The difficulty of receiving deliveries when no one is in – “how do you get a frozen chicken through a letter box?” | ✓ | (✓) | A real problem. The ultimate solution is built-in recepticals with frozen and chilled compartments. But the difficulties here are: – cost – space availability/aesthetics – capacity – security |
| 16 The question of returns and queries and checking that what was ordered has been delivered. | ✓ | (✓) | Will be an irritant |
| 17 The potentially more complicated means of paying securely. Secure payment of delivery | | ✓ | Until on-line security is assured ('E Cash') payment modes are unlikely to be as neat as in a conventional store – unless both parties are happy with a direct debit system. |

APPENDIX F

Checklist of initiatives to re-engineer the food shopping process

The following tables illustrate potential initiatives to improve the food shopping process as follows:

- 1 Technology initiatives
- 2 Service initiatives
- 3 Operating initiatives
- 4 Merchandising initiatives

1 Technology initiatives

| Initiative | Application/benefits | Importance by 2005 |
|-----------------------------|---|-----------------------|
| Personal Shopping Assistant | <ul style="list-style-type: none"> ● Hand held electronic device providing consumers <ul style="list-style-type: none"> – general shopping information – inventory searches – listings by price point – listings of promotional offering <p>Benefits: Retailer: allows personal communication Consumer: electronic comparative shopping</p> | Medium |
| Shopper ID systems | <ul style="list-style-type: none"> ● Electronic tagging system allowing: <ul style="list-style-type: none"> – individual shoppers to be identified – shopper movements to be traced. <p>Benefits: Retailer: more refined information on consumers. Consumer: potentially better service if retailer reacts to findings.</p> | Low but increasing |
| Intelligent labelling | <ul style="list-style-type: none"> ● Electronic labels for display at the shelf edge or on individual items allowing: <ul style="list-style-type: none"> – enhanced consumer information – flagging of temperature control – flagging of freshness control <p>Benefits: Retailer: ability to provide more information. Consumer: enhanced information</p> | Low |
| Advanced checkout | <ul style="list-style-type: none"> ● Self scanning staffing costs ● Supertags / magic tunnels ● Smart checkouts for: <ul style="list-style-type: none"> – computer directed cross selling – recognition of items then provision of appropriate recipes etc. <p>Benefits: Retailer: improved service. Consumer: Eliminates queuing at the checkout area.</p> | Medium but increasing |
| Electronic money | <ul style="list-style-type: none"> ● Introduction of new electronic banking system involving some form of e-money for low value transactions. ● Consumers will download money from their accounts to a digital purse. <p>Benefits: Retailer: reduction in costs associated with cash handling. Consumer: increased security</p> | Medium but increasing |

| Initiative | Application/benefits | Importance by 2005 |
|-----------------------------|---|-----------------------|
| Checkout management systems | <ul style="list-style-type: none"> ● Computerised system for queue management. ● Predicts the number of customers arriving at checkouts up to 15 minutes before it can aid checkout manning decisions. <p>Benefits: Retailer: improved customer service and productivity. Consumer: shorter queue times.</p> | High |
| Videocart | <ul style="list-style-type: none"> ● Videoscreen on the shopping cart to provide customer information during the shopping trip. <p>Benefits: Retailer: additional opportunity to communicate with consumer, re-enforcing message at the point of sale. Consumer: more information but potentially invasive.</p> | Low |
| Information kiosks | <ul style="list-style-type: none"> ● Combination of interactive and multi-media technologies to provide information. ● Information kiosks sited in departments can provide answers to customers questions, display product videos and offer product recommendations. ● Remote kiosks could be sited in smaller stores allowing customers to order a wider range of products. <p>Benefits: Retailer: ability to communicate interactively in a cost efficient way. Consumer: added service, remote kiosks could overcome store access difficulties.</p> | Medium but increasing |

2 Service initiatives

| Area of difficulty | Possible breakthroughs | Possible small improvements |
|-------------------------------|---|--|
| Getting service | A member of staff shops for the basics while customer browses areas of interest Home delivery for pedestrian shoppers | <ul style="list-style-type: none"> ● Customer service desk in all stores ● 24 hour customer service line ● No quibble returns policy ● Well informed staff capable of working on their own initiative ● In store butcher to give advice and preparation of special cuts ● Free glass hire and sale and return of alcohol for bulk party orders ● Chill box loan for fresh items ● Carry to car service ● Well equipped mother and baby changing facilities ● Regular customer coffee meetings to listen to likes/dislikes ● Party catering service available ● Communicate benefits of planned store refurbishment |
| Promotions policy | | <ul style="list-style-type: none"> ● Highlighted offers have minimum saving e.g. 15% ● Clearly flag end date of offers ● Linksave products always located adjacently (perhaps on gondola end) ● "Rain-check" voucher for any promotional line out of stock ● Multisavers have limit on customer entry point i.e. buy 5 get 1 free inappropriate ● \$/g value maintained on non promoted products i.e. 2 x 100g should not be cheaper than non-promoted 200g ● Strong seasonal offers e.g. strawberry promotions |
| Pricing policy | | <ul style="list-style-type: none"> ● Transparent and well communicated pricing policy e.g. John Lewis in UK "never knowingly under-sold" ● Consistent discount between pack sizes ● Minimum and maximum differential for own label ● Consistent approach to notifying consumers of large price increases ● Look up facility for historical prices in store to answer customer queries ● Unit pricing (\$/g) clearly displayed ● Price increase "rule" no more than 10% at any one time ● Self price option available in produce area |
| Product Quality | | <ul style="list-style-type: none"> ● Quality guarantees for KQI's e.g. melons guaranteed ready to eat ● Guaranteed success when following cooking guidelines ● Clear communication of own label quality ● Communicate freshness e.g. eggs from farm to store in 24 hours ● Communication of the benefits of the superior chill chain on product quality e.g. supermarket milk has 7 day shelf life, doorstep delivered milk 3 day shelf life ● Explain shelf life coding (e.g. best before/use before) |
| Meal planning and preparation | Store layout by food function not product category Full range of complete meal solutions e.g. takeaway / deliver or eat at the store | <ul style="list-style-type: none"> ● Rolling menu suggestion programme ● Wider range of prepared food/take out food (not pre-packaged) ● Range of in-store cookery classes, beginner to gourmet ● Appropriate staff trained in food preparation, menu planning, accompaniments ● Basic cookware, utensils included in food store range |
| Other store facilities | Foodstore becomes destination shop because of other facilities e.g. petrol stations, restaurant | <ul style="list-style-type: none"> ● All added services operated by retailer ● Concession staff same standard as store staff ● Segmented in-store catering, traditional cafeteria and more vibrant "coffee bar" for younger generation ● High representation of store products served ● "Meal of the day" that could be prepared in future at home ● Feature new products at introductory price and voucher for purchase in store ● Restaurant offer supports the overall food-values of the store |

3 Operating initiatives

| Area of difficulty | Possible breakthroughs | Possible small improvements |
|---------------------------|--|---|
| Car Parking and arrival | Alternatives to making physical trip to the store e.g. home shopping remote ordering from kiosk | Car borne shoppers <ul style="list-style-type: none"> ● Wider spaces ● Car park attendants ● Better signage ● Family / disabled parking spaces ● Clearly marked pedestrian walkways ● Store in middle of the car park ● Valet parking Pedestrian shoppers <ul style="list-style-type: none"> ● Convenient pedestrian entrance (near road/bus stop/not the car park) ● Store bus (regular, flexible pick up points) ● Cheap rate taxis |
| Shopping cart Suitability | On screen menu based selection (i.e. no need to physically walk around store) | <ul style="list-style-type: none"> ● Covered shopping cart parks ● Cart wipes ● Variety of shopping carts available e.g. double child ● Replacement service if “mis-steers” during trip ● Baskets always available for “top up” shop ● Motorised sit on trolleys for disabled customers ● Cool box section in the shopping cart ● Special protective bag for clothing (e.g. split carrier) ● Clothes “pick up service” at checkout ● Segmented trolleys to prevent crushing |
| Checkout Process | Elimination of queues Automatic checkout Supertag/magic tunnel | <ul style="list-style-type: none"> ● Sturdy carrier bags ● Longer conveyor belts so that shopping can be unloaded quicker ● “Bulk shopping checkouts” reserved for large shops (> 1 shopping cart) ● Minimise queues (one in front policy) ● Shopping cart un-packer service ● Bag packer service ● Assisted checkout (off peak service) ● Employees collect “forgotten” items ● Self scanning shopping carts ● Rapid “express checkouts” ● Assistant acknowledges customers pace ● Segmented lanes on conveyor belt to help separate fresh/toiletries/ bulky items, to assist bag packing ● All scanning checkouts ● Barcoded coupons |
| Congestion hotspots | Ability to spread customer flow more evenly throughout the week | <ul style="list-style-type: none"> ● Only one queue for service counters ● Wider aisles minimum width 2.5m ● Congestion areas e.g. produce/service counters located in corners/ back of store ● More space between gondola run and checkout run ● Large roll cages not used for shelf filling during store opening hours ● Pallet displays kept to large open areas ● Areas requiring browsing e.g. toiletries book given more square footage for customer circulation |
| Store opening hours | Liberalisation of current legislation non-store based shopping service | <ul style="list-style-type: none"> ● Smooth customer flow throughout the day with special events: <ul style="list-style-type: none"> – pensioners coffee mornings – mums and toddlers afternoons – singles evenings – family fun-days – working peoples lunchtime offers ● Offer food range in petrol filling station which may have longer opening hours |

4 Merchandising initiatives

| Area of difficulty | Possible breakthroughs | Possible small improvements |
|--|--|--|
| Store layout and product search difficulties | <ul style="list-style-type: none"> ● Layout by food usage/meal ideas ● Layout by shopping pattern not functional departments | <ul style="list-style-type: none"> ● Clear customer friendly signage ● Store maps ● Staff know layout / location, therefore able to direct customers ● Staff show customers to the fixture ● Frozen foods at front of store ● Bulky items last in flow ● "Top-up" route around super-store ● Daily items milk / bread etc. located near store entrance ● Lower shelves maximum height 1.7m (inc. product) ● Layout flexed during day to meet consumer demand e.g. 7-11 Japan, Marks & Spencer Moorgate ● Dual merchandising where appropriate e.g. tartar sauce with fish ● Clearly sign product re-locations at both locations ● Leaflet explaining why fixture has been re-merchandised complimentary "inconvenience voucher" ● Logical product group adjacencies ● Display similar food types e.g. Indian, Chinese together (even though they cross different buying groups) |
| Understanding the range | <ul style="list-style-type: none"> ● Select shopping from computer terminal in the "store recreation area" ● On screen menu based selection i.e. select meals computer calculates product requirements | <ul style="list-style-type: none"> ● Leaflets detailing complete speciality ranges e.g. vegetarian range and aisle locations ● Lists of gluten free, no sugar, low fat products available ● "New to world" products highlighted ● Service kiosks available in small stores to offer services available at larger stores ● Opportunity to taste new products for staff and customers ● In specialist areas e.g. wine, cheese, produce, staff have a minimum product knowledge – ability to recommend ● Small portion sizes available, break bulk service available ● Breadth of range in all store sizes ● Consistent on pack information nutrition, serving suggestion, recipe ideas ● Future product discontinuations flagged to customers ● Strength guides indicated on packaging when appropriate to help customer choice e.g. J Sainsbury's ground coffee range and Tesco's cheese range |

