Food System Choices

By Edward McLaughlin

During the 1990s, a transition has begun that is transforming current notions about the conventional food stores, how managers manage and the choices shoppers make about food. In the past 10 years, consider the change we have witnessed: increased retail and wholesale concentration, the growth of large stores, the acceleration of discounting but at the same time an increase in upscale offerings, the dramatic increase in use of electronic point-of-sale technology, globalization of retailing, growth of private label programs, the advent of category management, increased emphasis on customer service, heightened awareness of environmental importance and the dramatic growth of fresh, chilled, health and convenience products.

These changes have taken place within an essentially stable, well-defined structure—the food distribution industry as we still know it. Competition has been relatively predictable while the industry has invested largely into bricks and mortar, secure in assumption that the concept of the store as the location that consumers will continue to visit en masse will persist.

As the food industry continues to evolve, preparation for change is key to survival.

In fact, until now, consumers had no other real choice.

But the wind's direction is changing, and so is the velocity. A considerable number of factors are pushing the traditional boundaries of the food industry. Let's consider a few of these forces and speculate about their strategic implications:

• Consumers. Of course, marketing begins with the consumers. Yet this target is moving, faster. For an increasing number of consumers, food shopping is time-consuming, complex and boring. This points to an underlying, and largely unarticulated, demand for process improvements.

• Emergence of new models for food shopping. Signs are already evident of alternatives to conventional shopping.

• New competition. *Internal:* Economic concentration is largely a national concept. But the recent consolidation of retailing is not constrained by political borders. Yes, of course there have been increases in local and national concentration, yet the real story is the global consolidation of retailing. In only a few years' time, many are predicting the world will be dominated by six to eight international companies, competing fiercely against one another on nearly every continent. Wal-Mart, Carrefour (France) and Metro (Germany) are on this list already. Ahold (The Netherlands), Promodes (France) and Tenngelmann (Germany) will soon follow.

External: Historically, competition for retailers has consisted largely of other retailers, first just food retailers, then more recently, alternative retail channels, as well. But in the near future the competitive incursions will be made by entirely different industries. Logistics and electronic communication companies are incorporating "food retailing" into their new business plans. And customer service type organizations are beginning to compete for "share of customer relationships," irrespective of industry. This is part of the long term erosion of "mass marketing," the cornerstone of retailing strategies.

Technology is now making it economical to treat even large numbers of customers as individuals in "mass customization" initiatives. These forces are just now surfacing but soon their impact will be recognized widely. What should managers do now to prepare for the inevitable change? At least five efforts seem to make sense.

First, new shopping modes need investigation. Whether it is home delivery, consumer pick-up, Internet ordering, etc., these modes will define new processes and new consumer segments. It will not be the majority of shoppers, and it will start quite small. But it will be an affluent group of shoppers, which can only grow beyond the 5 to 10 percent range forecast for the year 2005 by many analysts today. The economic and competitive impact of these new modes will be disproportionate to their initial sales share.

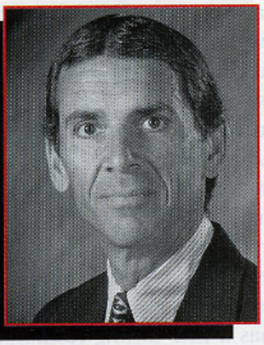
Second, continue to learn more about your customers and consumers. Developing more personal relationships with customers, through various frequent customer card programs and analyses of customer preferences and behavior, will return long term customer loyalty.

Third, add value to the shopping experience at every turn possible. Identify the areas that customers genuinely value and respect. What are they really willing to pay for? Find out, then aggressively establish leadership in those areas. And once a new program has proven successful, refine it.

Fourth, redefine the competition. To generate real growth and defend existing business, food stores will need to examine and respond to issues such as eating out, alternative uses of shoppers' time and nonfood goods and services. It is an important part on this battlefield that the supermarket's role in the HMR campaign will be won or lost.

Lastly, identifying the new core competencies will be critical for the 21st century food executive. Excellence in operations by itself will not suffice. Today's world is too complex. Partnerships between retailers and suppliers will be increasingly pivotal to success. Moreover, worldwide consolidation patterns suggest that these alliances will often be world class, involving logistics, multimedia communication, serious commitment to employee education and training, technology transfer and innovation competencies.

Change is not generally embraced warmly. But only those who recognize its inevitability and prepare for it will survive. DB



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