Supermarket Strategic Alert
Special Report

2001

FROM THE REGULAR AND SPECIAL EDITIONS

January through December 2000

Trends & Predictions

FROM THE 2000 REGULAR AND SPECIAL EDITIONS

Special Report: 2001

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Trends & Predictions

New trends are merging in the industry: (1) Shrink, once thought to be dominated by shoplifters, is now primarily attributable to employees. (2) Store design is changing more quickly than in the past because of high real estate, building and remodeling costs. New interest in modular and movable fixtures is emerging. (3) Outsiders warn that unless the supermarket industry adopts new business models, supermarkets in their current form will not survive. (4) Unsaleables continue to plague the industry. The solution is better cooperation between retailers and manufacturers—the battle cry to solve virtually all long-term needs.

By Business Week

In its prognosis for 1998 in the services sector for food, Business Week notes that 'for 25 years the traditional supermarket has been sliding toward oblivion.' Business Week bases this on the fact that supermarkets once claimed more than 67% of food sales, and recent share is below 50%. Consultants quoted in the article suggest that just adding high-margin, prepared foods departments is not the answer—since the sales growth has yet to flow through to the bottom line. Thinking share of stomach versus share of supermarket sales is not a simple solution. Although supermarket foodservice sales are expected to grow faster than restaurant sales in 1998, restaurant seats will grow about 4%. Tempering this with the projection that customer spending will grow only 2%, there will have to be some losers. The food/services sector (retailing, restaurants, etc.) experienced 300 mergers and acquisitions in the past two years.

Source: Business Week, January 12, 1998. Services/Food Prognosis, by David Leonhardt, p. 120.

By Forbes

In its annual report on American industry, Forbes notes that in the 50-year history of the report, American business has evolved from machine power to brainpower. Forbes believes the current evolutionary phase among the largest companies is driven by new interpretations of antitrust laws for mergers of competing companies. Examples outside the supermarket industry include Kimberly-Clark and Scott, Chase and Chemical Bank, and Bell Atlantic and Nynex—all reflecting the belief that as the economy becomes global, scale is critical. In looking at the supermarket industry, 1997 saw acquisitions by Safeway (Vons), and Fred Meyer (Ralphs and Quality Foods/Hughes), among others. For 1998, analysts point out that people are eating out more, that competition is increasing from outside the supermarket sector with expansion of Wal-Mart and Rite Aid, and that chains are adding high-margin prepared foods to win the war. However, the same analysts note that going after the meal and prepared segments may not be a cure for sagging sales because competition is already intense in the fast food and family restaurant segments—and those outlets will not take supermarket encroachment lightly.

> Source: Forbes, January 18, 1998. Annual Report on American Industry: Greatness is made, not bought, by Subrata Chakravarty, p. 98-215. Forbes, January 18, 1998. Food distributors, by Carrie Shook, p. 160-2.

By industry insiders

Each year Grocery Headquarters assembles an Editorial Roundtable for its January issue to talk about the year ahead for supermarkets. This year's roundtable included representatives from trade associations (NGA, IFDA, ASMC), manufacturers (Anheuser-Busch, Ralston Purina, Tropicana), retailers (Felspaugh Food Centers, IGA) and expert industry observers (ACNielsen, Prime Consulting). The group identified the following challenges for the coming year: (1) Identify ways to survive attacks on center store sales from mass merchants and category killers. This includes moving from ineffective category management to solution/customer selling. Some suggest a store-within-a-store format for departments, carefully picking categories on which to compete, or defend, or lose. (2) Learn to integrate and emphasize foodservice and perishables in an overall business strategy. This may be a long adjustment process, because consumers perceive supermarkets as aisles where they assemble the components they need. Just as supermarketers must define assortment by customer solutions, foodservice represents the same challenge—only bigger. Customer requirements change by time of day, day of week, time of year, and more. The competition comes from new rivals whose definitions of customer service and satisfaction are far better honed than those of supermarkets.

(3) Find ways to sharpen customer service and product choice within categories, to heighten store differentiation and increase customer retention. While frequent shopper programs provide a tool, bottom line preoccupation with cash flow can lessen focus on the customer. (4) Increase cooperation between trading partners. The consensus is that necessary changes are occurring within the culture of the supermarket industry, but extremely slowly. ECR initiatives, although widely discussed, have yet to resolve the worst problems. Some believe the approach to date has been too complex, impractical, and costly for broadscale implementation. Simplification is critical, with a return to store-specific emphasis. Partnering is largely talk and not action, because of conflicting priorities and cost-cutting. Brokers are pressured by local-level manufacturer cutbacks and retailers not taking up the slack. (5) Determine how to use technology to achieve business objectives, improve efficiency, and add to the bottom line. Roundtable participants agree that technology is the critical enabler to streamlining operations—from EDI to case coding to frequent shopper programs to home delivery. There was limited agreement on the potential of the Internet, although one manufacturer suggested that it is easier to reach consumers through the Internet than through the supermarket.

(6) Find ways to adjust to changing labor needs including the shrinking supply and increasing need for greater technical skills: Attracting qualified entry-level personnel is always problematic when competing with fast food outlets, mall stores, and other channels. As technology permeates the store, developing training programs to improve skills and retain personnel becomes an additional challenge. (7) Take steps to prevent food safety problems. Food safety disaster prevention is a function of qualified personnel, as well as procedures and measurements in food preparation—a new discipline for supermarkets. (8) Determine how to improve deteriorating store conditions. (9) Anticipate unnamed and unexpected competition…predicted by some to be the resurgence of convenience stores with HMR programs or delivery services such as FEDEX and UPS.

> Source: Grocery Headquarters, January 1998. Choosing the battleground, setting the strategy, by Bob Gatty, p. 10-15.

Components of Food Spending

Business Week points out that consumer spending on food—15% of disposable income—has not changed in the last two decades. However, how that money is being spent has changed dramatically: less food is being prepared at home and takeout/delivery services are driving restaurant sector growth. The predicted impact of these changes: (1) a continuation of the golden age of restaurant retailing, (2) trouble for packaged food manufacturers, possibly leading to mergers. (3) changes in supermarkets including more technology, more take out food options, and 'health oases.' (4) emergence of a new category of foods—'cell foods'—which can be eaten with one hand while the other is driving or cruising the Net. (5) further supermarket consolidation. (6) little threat from online grocers, despite hype. (7) more food safety scares that could impact entire categories.

Source: Business Week, January 10, 2000. Outlook 2000: Distribution/Food, by Ann Therese Palmer, p. 132.

A good retail leader is a good retailer

Fortune notes that retailers believe in each other. After interviewing master merchants, Fortune notes that they believe in turnarounds by Gap, TJMaxx, Safeway and Ames in the coming months, based on their faith in the company ceos as both merchants and businessmen. In the case of Steve Burd, ceo-Safeway, one analyst says his track record of cutting costs, lowering prices and improving customer service proves his leadership. He has promised sales growth in the fourth and first quarters—which this analyst believes he'll deliver.

Source: Fortune, January 10, 2000. Will Out-of-Style Retailers Soon Be Fashionable Again? by Herb Greenberg, p. 214-6.

Slotting Fees: Looking Ahead

Few inside or outside the industry believe the recent Senate hearings on slotting fees will produce significant changes near term in the process. In fact, the FTC (Federal Trade Commission) views merger enforcement as its most powerful tool for ensuring reasonable limits on market concentration. The Commission has used its enforcement authority against 10 supermarket mergers in the last five years, which required divesting 277 units. Most recently, its position was critical in scuttling the Ahold-Pathmark acquisition.

The FTC approach to investigating slotting fees is based in part on the fact that it receives an average only one complaint every three months. Therefore, it looks for conduct that is harmful to overall competition, which could affect an individual competitor. Slotting fees, per se, are not considered a red flag because they can have differing effects on the market place. Where they result in discounts off list price that are passed onto consumers, they are viewed as beneficial to competition.

Food distribution with out slotting fees presents an interesting picture. Those interviewed by Store Equipment & Design offered the following observations: (1) Merchandisers would have more influence over store design, providing space for those items shoppers want, not those that pay for the space. (2) Categories could get smaller for the same reason. (3) Manufacturers might end up leasing space in supermarkets. (4) Specialty retailers will see their grocery assortments diminish as perishables and foodservice take on increasing importance. Simultaneously, slotting fees will decline in importance to them.

Source: Supermarket Business, January 2000. FTC Stresses Merger Curbs, by Tom Weir, p. 18. Store Equipment & Design, January 2000. Performance-based stores, p. 13.

Things change, things stay the same

According to Trade Dimensions, a company that tracks such data, during 1999 deals including 100+ stores affected 33% of supermarket ACV (all commodity volume). Kroger and Albertson's contributed to 65% of total acquisitions. In contrasting the top ten chains in 1989 and 1999, highlights include: Wal-Mart, Ahold and HEButt appeared on the list 1999; American Stores and Vons disappeared from the 1989 list because they are now part of Albertson's and Safeway respectively. Those rounding out the list in both years: Kroger, Albertson's, Safeway, A&P, Winn-Dixie, Food Lion, Publix—with Pathmark making the list both times, once as part of Ahold (which it will not be) and once independently.

Source: PROMO, January 2000. Livin' the Retail Loca, by Scott Taylor, p. 34.

Top 5 European retailers to grow more

According to M+M Eurodata, a German research firm, the top ten retailers on the European continent will control 65% of supermarket sales by 2005, the top five 40%. Today, Carrefour/Promodes, Metro, Intermarche, Rewe and Auchan already control 25%. The growth will be attributable to acquisitions…and presumably the arrival of Wal-Mart.

Source: Progressive Grocer, January 2000. European consolidation, p. 22.

Handling bribery

With globalization increasing, growers and manufacturers are faced with adapting to different business practices. According to a survey by Gallup International for Transparency International, business practices vary by country and the BPI (bribe payers index) reflects this. Those countries in which bribes (to distributors, primarily) are least likely to be paid are Sweden, Australia, Canada, Austria and Switzerland. Countries where bribes are most likely include Malaysia, Italy, Taiwan, South Korea and China. CPI—the corruption perceptions index—places Cameroon and Nigeria at the top of the list of countries where government officials are most often bribed. Denmark is at the bottom of the list. Consultants recommend that manufacturers and processors work hard from the outset not to get involved in such business customs and build reputations as good corporate citizens. This can be accomplished by supplying philanthropic services and establishing goodwill.

Source: Progressive Grocer, January 2000. Bribery game, by Jenny Summerour, p. 43-4.

Shrink Variances by Channel

According to statistics from Loss Prevention Specialists of Winter Park FL, total shrink in retail outlets has risen steadily from $21.8 million in 1991 to $33.4 million in 1997. Losses from shoplifting have risen from $8.37 million to $11.48 million in the same period. Thief demographics, size of theft and most frequent month and day of apprehension vary greatly by channel.

characteristic	grocery	mass merch	drugstore
average theft	$20.38	$270.06	17.26
male/female	55/45	35/65	47/53
adult/juveniles	89/11	96/4	82/18
month/day apprehension	March/Sat	May/Fri	Dec/Wed

Source: Store Equipment & Design, January 2000. Shoplifting Stats, p. 38.

Short vs. long-term strategies

Speaking at the NGA Convention, Bud Hamilton, vp customer business development-Procter & Gamble, advised retailers not to look at short-term manufacturer incentives on center store products as a long-term survival tool against alternate channels. Noting that supermarkets cannot win on price alone, Hamilton suggested pricing within 5-9% of competitors and communicating total store value. Basic mass merchant strategy is to communicate value using center store categories. Other tips to supermarkets beyond being competitive on known value items: (1) Stock larger sizes, which have growing appeal. (2) Create exciting displays using the known value items to keep the consumer surprised. (3) Stock and display new items quickly. Mass merchants have always embraced new items more quickly than supermarkets, which gives them an edge.

Source: SN, February 7, 2000. Use Long View in Center Store: P&G VP, by Elliot Zwiebach, p. 6.

Heads up! Chaos reigns

Peter Cochrane, chief technologist for British Telecom, warned that the world is changing and people and businesses had better adapt to survive. For a long time, the world has been dominated by atoms. This means there have been natural physical boundaries to define the limits of human expedition and development. Most understanding, knowledge and experience has been gained in this bounded, slow moving, and dominantly random environment. Social, commercial and governmental frameworks evolved slowly to meet the limited needs of this world.

Well—wake up! Today the world is dominated by bits. This means a global grid of on-line information, experience and commerce that has no form, few constraints, and virtually no limits. Chaos reigns: the world is devoid of order and things are changing very rapidly. This will require everyone to learn to live without order and to tolerate the unknown. We are now Information Society that we cannot predict. Every institution, organization, group and individual has been, or will be, affected by these changes. There will be globally-available education, training, health care, work and commerce, governance and the nation state. Nothing will escape change brought about by our growing dependence on and demand for more IT. To prosper we have to embrace change in a new and faster way.

Cochrane warns that manufacturing must change. Costly stock holdings, inventory, overcapacity, empty containers, late deliveries and shortages will no longer be tolerated. Artificial intelligence control systems, just-in-time production and delivery processes are reducing costs, improving quality and enhancing customer satisfaction. People who have skills to sell in the electronic market are not confined to one employer or indeed singular employment. Very few companies are in business for 100 years, and only a few last for forty years. In the new IT world this is likely to drop to less than ten years. The work force will become increasingly nomadic, and will turn to multiple parallel employment and a share of the action for long term security.

Business has formerly been dominated by slow communication and control processes, with hierarchical management structures—probably derived from early military command structures which worked well through industrialization. But slow communication and control processes do not fit the faster moving IT era. Here chaos is the natural order due to rapid communication, decision-making, and correlated human/machine activity. As a society and a species our dependence on technology is now complete.

Source: FMI MarkeTechnics 2000 Presentation

Opportunity For Independents

According to preliminary findings of the Retail Coverage/Instore Implementation Study conducted by The Partnering Group, independent retailers can generate immediate and substantial profit increases by better planogram maintenance and by getting new products to the shelf faster. Currently, independent retailers are running at only 80% of capacity.

The study examined shelf schematic practices in 90 stores for 200 product categories, along with 105 weeks of ordering data. There was a 21% difference in unit sales, a 2% difference in dollar sales and a 7% difference in gross profits between those stores that maintained their shelves with a high degree of integrity versus those that did not.

For the new products analysis, the study examined 1600 new items over six months across 450 independent retail stores. Sales and gross profit data by store was captured and compared against other trade channels.

channel	speed-to-shelf (in weeks)
integrated chain retailers	3.6
drug chains	4.0

mass merchandisers	4.1
independent retailers	7.2

By increasing the speed-to-shelf to 4-4.5 weeks, the study estimates an average of $115,000 in added sales per year and $30,000 in added gross profits per store.

Source: SN, March 13, 2000. Independents' Competitive Disadvantage Aired, by David Merrefield, p. 1, 62.

ECR: Looking Ahead

In advance of the 6th annual (and final) ECR Conference this month in Atlanta, trade association representatives and others contributed to the eulogy—noting that the supply chain has changed forever and the technology learning curve has accelerated. Proponents credit ECR with improving retailer-manufacturer relationships. They note that collaborative planning and forecasting, scan-based trading and pay-on-scan would not exist today without the ECR backdrop. Still, skeptics contend that ECR was a rallying point and only a short-term enabler. Inefficiencies remain throughout the industry.

With e-commerce seizing attention, GMA and FMI have set up a joint committee to include ECR issues in the E-Business Summit they launched in 1999, seeking co-sponsorships from the other trade associations involved in ECR. Industry insiders see the core components of ECR remaining, but each being preceded by 'e-' to reflect the importance of technology and paperless communication tools.

The emergence of electronic marketplaces (UCCNet, vialink, etc.) will give retailers and manufacturers multiple e-commerce interchange points, formats and standards—each with their own advantages and shortcomings. Some see them as redundant and inefficient, others say they are the logical step toward worldwide standards for EDI and product numbering and identification.

Interestingly, at the conference itself, no session leaders referred to it as being the last—perhaps in hopes of bringing the patient back to life. Still, attendance was less than 700, down from twice that in its glory days. Repeat attendees noticed less energy and excitement, while first-timers were enthusiastic about the tactical tool chest.

Source: Food Logistics, March 2000. As ECR Fades, a New Era Dawns, by Alan Robinson, p. 31-33. SN, March 6, 2000. ECR's Legacy, by Mina Williams, p. 29, 34. RetailTech, March 2000. Swan Song for ECR, by Deena Amato-McCoy, p. 18-20.

Identifying and capitalizing on change

Jagdish Sheth, distinguished professor at Emory University, revisited his predictions from last year's conference and offered new theories about the future. Sheth's earlier prognostications surrounded four factors that influence consumer marketing: demographics (a slow-moving force), competition and globalization (two faster-moving forces) and technology (the fastest-moving driver).

Demographic changes include: (1) The workforce is aging and affluent (this is the first time in history that there have been five adult living generations, with those over age 10 growing fastest as a segment. (2) More women are working, so households are doing more outsourcing, fueling the shift from buying products to buying services. (3) Ethnic diversity is increasing, with Spanish-speakers becoming an increasingly large group. (4) The middle class is declining, with population growth occurring at the two extremes. This has been happening since the 1960s and signals problems for mid-price companies.

Regarding globalization, Sheth pointed out that the first round of national realignment he predicted has come to pass with North America, the European Union and Japan as leading economic forces. The second round is currently underway and represents a shift from East-West polarization to North-South alliances. North and South America have joined, the European Union has accepted Eastern Europe and the Asia-Pacific alliance now includes China, India, Malaysia and others. He predicts further North-South alliances, which will have a profound effect on eliminating food seasonality—ultimately resulting in the 'outsourcing' of food production to those nations where land, labor and production are cheapest.

Regarding competition, Sheth reiterated his belief that in every industry three market generalists will control 70-90% of the market. And the rest will fall to specialists. Those most vulnerable will be the smallest generalists and the biggest specialists. Proving his point, he spoke about the recent takeover of Chrysler (the vulnerable) generalist by specialist Daimler—rather than by one of the other big three carmakers (General Motors and Ford).

Technology—the fastest moving of the drivers—is the most fascinating to look at. Technology is dramatically changing how individuals and business do everything. Formerly, location and time, both isolating factors, limited consumers and enterprises. The Internet and related advancements have eliminated those silos. This means that what began as improving back office productivity (internal business process automation and supply chain automation) is now improving front line productivity in the form of customer relationship automation and interactive marketing.

These drivers will have the following impact on marketing practices: (1) Marketing will occur on demand; this includes information (advertising, etc), communication (specifications and ordering) and transactions (exchange of funds). (2) Consumers will act as producers; self-ordering and self-service will emerge. (3) Permission marketing will prevail, with consumers initiating the sale through interactive marketing. (4)

Delivery marketing will be an issue, with home delivery immediately (Domino's) at one extreme and delayed delivery at the other (Amazon). (5) Consumer and business markets will blur as more people work from home and more shop while at work. (6) Sales-service integration increases in importance as shoppers demand one-stop accountability. (7) Mass personalized marketing will occur along with mass customization. There will be personalized advertising and promotion, service and products. It will begin with packaging and then include even ingredients. (8) Internet marketing will extend from PCs that access Web sites to electronic malls to full-scale electronic commerce. (9) Affinity marketing will increase as consumption clubs and membership groups emerge. (10) Integrated global marketing will result as there are global brands and global bazaars, serviced by global account teams.

Ultimately, Sheth predicts that there will be a convergence of bricks-and-mortar and clicks-and-order. He points to the recent AOL-Time Warner merger as a milestone, and the AOL-Sears alliance as further evidence.

Source: 2000 Joint Industry ECR Conference Presentation.

Excellence beyond groceries

Each year Progressive Grocer singles out companies in other industries for their excellence. As has been the case in prior years, many of these companies compete—albeit indirectly—with supermarkets. Those recognized this year without competitive connections include: DLJ Direct for convenience and Old Navy for generational selling.

Those recognized who compete to some degree with supermarkets include: (1) ESPN for branding. In addition to its television, radio, Web and events operations, it now has sports-themed dining venues—offering an alternative to eating at home. (2) Ikea for lifestyle retailing. The chain also sells some food. (3) UPS for technology…one of the companies cited for having looked into buying or investing in Peapod. (4) Marriott for formats, many of which have multiple dining options. (5) Sephora for merchandising of cosmetics and beauty care—among the very lines supermarkets are using to expand their one-stop shopping image. (6) Target for marketing—and operating Greatland and SuperTargets, which are full-line supermarkets. (7) Bed Bath & Beyond for product variety from hard goods and domestics…and upscale and natural food products.

Source: Progressive Grocer, April 2000. Profiles in excellence, by Michael Friedman, Len Lewis, Richard Turcsik, Barry Janoff, Michael Friedman, p. 22-48.

Romancing center store

With overall supermarket sales declining in real dollars and labor and shrink high in peripheral departments, center store presents a meaningful opportunity—if operators are seriously willing to rethink conventional wisdom. Insiders admit that they have been focussed on perishables and prepared foods in recent years because they represent a point of difference from alternate channel competitors. The result has been that low-priced competitors have begun eroding center store dry groceries. Center store has become dull relative to other departments.

Store design firms suggest considering 'out-of-the-box' thinking, including: (1) Do not assume that center store must contain certain items. Look at it more as a cluster of departments, based on what the demographics suggest. If that means refrigerators in multiple areas, use them. (2) Create an ambience that differentiates center store departments. (3) Do not be bound by conventional aisle configurations. Consider double-wide aisles with displays or power centers. (4) Use floor color for differentiation, although it represents a more permanent commitment than aisles, which can be moved. (5) Remember the power of signage.

Source: Store Equipment & Design, April 2000. Center-store profit zones, by Monica Buckley, p. 1, 9-12.

FMI Speaks 2000

The theme of Speaks 2000 was Fast Forward and throughout the presentation, Michael Sansolo—svp FMI—emphasized the pervasiveness and accelerating pace of change. The most dramatic change in the industry is consolidation since today the top four chains control 30% of the market, the top eight 50%. In a survey polling FMI members, 60% of respondents said that a merger hit their area in the past 12 months.

Still, FMI saw good news in 1999. Grocery industry sales were up 5.1%, 3.2% in real dollars——the highest numbers of the decade. Part of this strong growth occurred in the 4th quarter and is attributable to Y2K 'stocking up.' Same store sales rose 2.7%, 0.8% adjusted for inflation. Sales per labor hour rose by more than 10%—encouraging in light of the tight labor market.

Sansolo referred to the supermarket industry as Darwinian—requiring new levels of fitness for survival in time of fast-paced change. Among the changes operators must face:

(1) Alternate channels are no longer alternate: more than one in four consumers shop for traditional groceries regularly at discounters and mass merchants. About the same percent go to category killers, 14% go to clubs and 11% go to limited-assortment stores for traditional grocery items. This is confirmed by retailers indicating the competitor they fear most this year is supercenters—existing and new. They no longer see other supermarkets as the primary threat as they have in the past.

(2) 40% of consumers polled say they eat their main meal outside the home 2-3 times a week; younger shoppers (those 15-24 years of age) say they eat out more than 4 times week. Retailers must think ahead because this group will be 'family shoppers' in the next ten years and retailers must gain their loyalty now.

(3) Retailers must rethink their criteria for locating new stores. They have long gone where the per capita income is highest—the suburbs. FMI suggests using wealth per square mile as a measure of business opportunity, urging its members to reconsider inner city sites for growth. Wealth per square mile in New York City's Harlem neighborhood is six times greater than that of the total area because of population

density. This, coupled with statistics from the Bureau of Labor Standards, which show that lower-income families spend twice as large a percent of their income on food at home as upper-income families, confirms the importance of changing store location criteria.

(4) Full-time employee turnover rose dramatically to almost 17%—double what it was ten years ago. Since retailers agree they need more skilled employees, this trend is alarming. Among part-timers, the turnover rate was 82% last year. FMI member recruiting practices now include job fairs, on-site recruiting centers, partnerships with local schools and Web site advertising. Still, it takes six interviews on average to fill a position.

(5) Although grocery shopping online lags other online shopping in terms of popularity, Sansolo warned that in Internet time, a year is only 48 days and waiting to go online could be detrimental. Currently only 2% of consumers polled said they would use the Web for all their grocery shopping, but 46% said they would use it 'half the time.'

(6) Government intervention is escalating as well. Lately OSHA is trying to prevent cashiers from loading items heavier than 15 pounds into shopping bags—suggesting the need for multiple clerks to handle Thanksgiving turkeys, dog food, etc. at a potential cost to the industry of $26 billion. The upcoming election suggests that there will be little action on this proposal, but look for significant posturing and investigations into slotting fees, senior prescription drug benefits, minimum wage increases and other measures that could increase operations costs or lower margins for supermarkets.

Source: FMI Presentation: Fast Forward. SN, May 15, 2000.Finding the Growth Formula, by David Orgel, p. 1, 14-15. Inner City Called an Untapped Resource, by Elliot Zwiebach, p. 16. Adaptation to Changing Demand Urged, by Elliot Zwiebach, p. 18. Speaks: Fast Forward, by David Merrefield, p. 2.

How business will be done

Gartner Group makes predictions about specific technology events to help in the business planning process. Below are their latest assessments of what lies ahead. (1.0 probability is absolute certainty.)

- 0.8 probability that through 2002, 30% of traditional retailers will improve online profit margins by leveraging brand equity and offering value-added services including configuration, personalization and interactive customer service.
- 0.8 probability that through 2002, only 40% of traditional retailers will establish effective fulfillment for online order prior to launching e-commerce sites, risking dissatisfied customers and lost market share and revenue.
- 0.8 probability that by 2005, desktop PCs will account for less than one half of 1% of Internet access points.
- 0.8 probability that by 2005, there will be a 50% shortfall in the supply of application development professionals.
- 0.8 probability that by 2005, 80% of manufacturers and 50% of service providers with sales of $1 billion+ will depend on strategic alliances for greater than 50% of what they deliver to market.

Source: Executive Edge, April/May 2000. Strategic planning assumption, p. 6-10.

Store design: Costs, scheduling, fixtures

According to responses from 250 store planners, senior management, construction executives, designers, engineers and facilities managers from supermarkets and c-stores and outside consultants, Store Equipment & Design reports most store planning and design represents a collaboration of internal and outside personnel. In-house design departments consistently work on both remodels and new stores. The budget for the construction of a new store averages $2.6 million, and will likely increase over 20% in the next year.

Remodeling averages $380,000, and costs are expected to rise only 8%. Almost 60% of companies do not have fixed store remodel schedules, but average about five years between them.

Among respondents, the average size of a supermarket is 41,000 square feet and is likely to increase. In the past five years, store designs have included more self-service areas, more prepared foods, better/more flexible merchandising, higher ceilings, more color and graphics and a marketplace feel. Design elements that are popular this year include: more lighting, more foodservice, merchandising flexibility, portable fixtures, tile flooring, more efficient refrigeration and energy management. Design elements rated the best: open/changeable layouts, simple decor packages, open storefronts, store-within-a-store concept, split ceiling heights and bright colors. Respondent indicated the three most important factors influencing store design are available sites, consumer lifestyles and budgets.

Source: Store Equipment & Design, May 2000. Designing the store, by David Litwak, p. 1,12-13, 15.

Store design: Convenience and entertainment

SN-Supermarket News observes that supermarketers are rethinking conventional design to provide more convenience, entertainment and excitement to bring customers back. For convenience, operators are leasing perimeter areas to banks, dry cleaners video rentals, etc. For entertainment and excitement, perishable work areas are opened to demonstrate food preparation. Solution selling groups related product, perhaps with dedicated and portable checkstands. State-of-the-art lighting and signage add drama. Portable fixtures (from refrigerated cases to cash registers to storage ovens) that can be configured and moved within the store to adapt to time-of-day demand are increasingly popular. Refrigerated fixtures in the middle of dry grocery lanes add to variety to the shopping experience.

Source: SN, May 15, 2000. Lights, Cameras, Floor Plans, by Mina Williams, p. 23, 26, 28.

Store design: Planogram templates save time, money

Associated Grocers Seattle has boosted planogram staff productivity by more than 300% using a combination of templates, interface software and the Internet. The Internet allows for posting of 400 planograms for customers as far away as Guam to access and download as necessary. The interface software permits AG to update schematics from a relational database of SKUs, so that entire categories are updated in seconds versus hours for manual changes. Templates allow for automation of routine changes. AG believes the more efficient package is worth the time and money to set up because it will result in better SKU rationalization and bringing new products to market sooner—a critical competitive tool for independents.

Source: SN, May 1, 2000. Templates Draw Better Planograms: AG Seattle, by Dan Alaimo, p. 29-30.

Weather Watch

With 44 weather-related disasters in the last 20 years, farmers have become increasingly focussed on planning for the inevitable. Forecasters believe that the current dry conditions will continue and get worse. The USDA has warned farmers, but still predicts no significant impact on food prices because of the size of the supply.

Although the third year of La Niña will create severe drought conditions in parts of the South and Midwest, the primary growing regions of the US—California and Florida—are forecasting solid crops. While Midwestern farmers will feel the effect, retailers will likely be unaffected since they no longer rely on local supplies of produce. With regional, national and international resources, shelf prices will be unlikely to rise. Grain crops from the drought-stricken regions may be reduced, not because of lack of rain for planting, but from dry growing conditions. Because the impact of La Niña has shifted over the last three years and because of grain storage, there are few price changes predicted.

Source: Grocery Headquarters, June 2000. Minding Mother Nature, by Alison Paddock, p. 39-40. Progressive Grocer, June 2000. Blunting La Niña's bite, by Terry Hennessy, p. 87-90.

More Foam Signage

Signage is a critical to store image and for informing shoppers. Formerly mounted on heavy cardboard, wood or other materials, photos, logo and directional signs are now frequently mounted on lightweight foam because: (1) lighter weight leads to lower shipping costs and easier installation, often by a single person, (2) easy lamination of photos and direct painting/screening, (3) accommodation of multi-dimensional cutouts and sculpted shapes. Designers say foam signage can add a more upscale look to stores, especially in perimeter departments, and can add color and texture to walls.

Source: Store Equipment & Design, June 2000. Foam sweet foam, by Erik Martin, p. 19.

Store Design Trends: Crystal ball gazing

Retailers and store designers attribute the evolution of supermarket design at least in part to the availability of food elsewhere. This means that supermarkets cannot take for granted that shoppers will come to them, so they must provide a desirable and interesting reason to visit. Optimal design includes conventional reassurances, state-of-the-art innovations and surprises.

Progressive Grocer suggests that stores of the future will contain the following: (1) In-store technology, cutting edge communication systems and Internet compatibility: this includes self-scanning, kiosks with Internet access, touch sensitive display screens to order merchandise for pick-up or home delivery. (2) Integrated e-commerce fulfillment centers: most likely adjacent to stores, these areas would solve timing and delivery problems for Web or other grocery orders. These 24-hour service centers would also handle film, laundry, dry cleaning, UPS, etc. (3) Creative use of space in limited real estate: this translates to higher ceilings or none at all to accommodate more storage or more dramatic signage. It can also mean multi-level stores where footprints are especially expensive. Rooftop parking is another example. With increasing Internet stock-up shopping, only stock room space might be allocated to staples. Elevators or rotating areas could provide more varied displays by time of day or day of week. Flexible fixturing with interchangeable components could also proliferate. (4) Integrating design globally: design ideas from outside the US present innovation opportunities, especially where smaller merchants have developed solutions to space constraints. Outside the US stores are less likely to lead with perishables, deli departments may not exist and frozen foods are less common because freezers are rare. (5) Greater attention to fitness and health: features to meet these needs include kitchens for cooking demonstrations, in-store restaurants, gyms and workout areas, and nutrition counseling.

Many point out that the winners may be those who figure out how to create smaller, more convenient perishables experiences with larger destination stores for stock-up shopping. Although research suggests that the number of shopping trips have remained constant since 1998, the trips are longer and more stores are visited, suggesting the importance of proximity.

Source: Progressive Grocer, July 2000. Design of the times, by Barry Janoff, p. 20-36.

Store Design Trends: Mobility provides flexibility

Mobile display fixtures offer several advantages to retailers: (1) Daypart merchandising utilizes different products in different locations, such as breakfast items at the front door and soup/salad selections near the deli for lunch. (2) Cross-merchandising brings products from different departments together for daily problem-solving special events, such as dinner meal solution ingredients or picnics or parties. (3) Demo capabilities make mobile displays sales-builders for almost any department they visit when they combine perishables and dry groceries. (4) Mobile displays enforce the image of freshness throughout because they can so easily be revamped and redressed.

Mobile display manufacturers see the trend escalating quickest during store remodels, especially in smaller units where fixed displays reduce flexibility. Retailers need to seek a critical balance between remerchandising for excitement and limiting the labor-intensive activity of moving mobile displays. The newest units combine multiple refrigeration and non-refrigerated options. Some stores are being designed with special lighting to spotlight these units as they move through the store.

Source: Store Equipment & Design, July 2000. Going mobile, by Pat Terry, p. 17-8.

Store Design Trends: Opportunity for independents

Store design can be an important tool for independents—especially as discount chains proliferate. Design professionals note that the process is rarely simple or straightforward. Independents often underestimate their reputation in the community and misjudge what they stand for in the eyes of shoppers. Consultants urge independents to think creatively: (1) Use high-tech building materials to replicate retro designs if that's the desirable image. (2) Using design to divide a large store into smaller sections often makes it more personal and less like the giant chains. (3) Single departments can be the key to differentiation, including cheese, sausage, etc. (4) Emphasize the perimeter.

Source: Store Equipment & Design, July 2000. Who Are You? by Marilyn Cavicchia, p. 1, 12-3.

Maybe not the long-term solution

Not everyone shares Wall Street's recent enthusiasm for food company mergers. Skeptics point to the following reasons for caution: (1) The industry overall is barely growing. While mergers produce increased top-line sales and potential lower operational costs after assimilation, the daily demand of integrating businesses costs money. (2) The very managers who excel at introducing new products are distracted by integration operations. Unfortunately, over the same time period that new product development is on hold, the operational savings dwindle. (3) Recent deals involving companies with of low valuations are particularly risky because they are done with borrowed cash. Spinning off assets is one way to pay down the debt…but this is not a sure thing. According to Boston Consulting Group, '65% of all mergers do not accomplish what they set out to do.'

Source: Business Week, July 10, 2000. Food Giants: Bulking Up Isn't the Answer, by Nanette Byrnes, p. 178.

History tells a harsh lesson

Gary Hamel, a Harvard Business School professor and consultant, has coined a new term, 'corporate liposuction.' This is cost cutting to provide a quick earnings boost that prevents radical innovation which is a key ingredient for long-term survival. He recently analyzed 50 S&P 500 companies whose earnings grew more than five times faster than sales in five years between 1993 and 1996. He discovered that 43 had significant downturns in earnings growth within three years. He attributes this to short-term thinking instead of long-term planning. Recognizing the pressure from Wall Street, Hamel and others warn that improving efficiency is important, but cutting costs and generating 'chaos and disruption' is going too far. In examining profits, analysts warn that the following have nothing to do with selling more products or services and should be suspect because of long-term problems: restructuring, layoffs, unloading underperforming assets, outsourcing operations, share buybacks and pension gains. These favored tactics present long-term risks.

Learning from past analysis, Business Week looked at the S&P 500 and isolated 25 companies whose earnings growth was five or more times greater than sales growth between 1995 and 1999. Forewarned is forearmed: Kmart's income/sales growth ratio was 21.1, Supervalu's 9.8. If Hamel and the others are right, this means earnings declines in the near future.

Source: Business Week, July 17, 2000. 'Corporate Liposuction' Can Have Nasty Side Effects, by Louis Lavells, p. 74-6.

Unsaleables Update

According to a new unsaleables benchmarking report released by the Grocery Manufacturers of America, Food Marketing Institute, and Food Distributors International, unsaleables now cost the entire grocery industry more than 1% of annual sales. Retailers and distributors surveyed averaged less than 1% profit after taxes, but also lost 1% of sales on unsaleables costs. Manufacturers fared slightly better, with profit after taxes of 12% with 9% of profit dollars going toward unsaleables costs.

This report is the first industry-wide effort to track the rate of unsaleables—products that were destroyed, returned, donated or placed with salvage operations—across manufacturers, retailers and distributors. The study compiled data from 50 manufacturers and 36 retailers/distributors, and was conducted by the Center for Food Marketing at St. Joseph's University.

Findings in the 2000 Unsaleables Benchmarking report include:

- Unsaleables as a % of retail dollars were comparable for retailers/distributors at 1.01% and manufacturers at 1.11%. Self-distributing retailers, distributors, convenience stores, and drug stores are the most expensive channels for unsaleables.
- Unsaleables are highest in the convenience store channel at 1.44%, followed by supermarkets at 1.3% and drug stores at 1.22%. The lowest-unsaleables channels are club stores with 0.9 % and foodservice with 0.6%.
- Plastic containers have the highest unsaleables rates throughout all channels.

Issues impacting unsaleables include: (1) a lack of trust between trading partners that often results in redundant third-party processing facilities. (2) an increase in channels, which adds complexity of unsaleables management, (3) continued industry consolidation, which results in less retail coverage and higher unsaleables rates. Effective management practices identified by the report include: fair policies and alliances with their trading partners, sharing appropriate information and proper handling practices.

> Source: GMA, FDI, FMI Press Release, July 27, 2000. Taking a Bite Out of Profits. SN, August 7, 2000. Study Suggests Ways to Manage Unsaleables, p. 12.

Changing job description

Progressive Grocer examines the role of chief executive officers and profiles the leaders of Fleming, Stop & Shop and Agribuys.com. Key skills of today's successful ceos include flexibility, a balance between leadership and management, the ability to make unpopular decisions and the ability to communicate with the loading dock as well as with Wall Street. Others add that a ceo must provide vision and foster an environment of success that simultaneously holds individuals accountable for their performance.

Mark Hansen (Fleming), Marc Smith (Stop & Shop) and Marina Kotsianis (Agribuys.com)—all seasoned business executives—agree that the toughest role they now have is fostering creativity because tomorrow's solutions are not necessarily based on today's experience. Managing—monitoring performance and providing feedback—is far easier than leading, where communications skills must articulate the vision. Hansen and Smith point out that the more complex a company (such as a supermarket retailer with specialists from several disciplines), the more difficult it is to communicate the vision so it can be shared. They point out that emphasis should be placed on leading rather than managing because it better reflects what is necessary for long-term survival. This means tempering the importance of quarterly numbers for Wall Street with the need to redesign the operation for the future. Because financial performance is so important, Hansen suggests that ceos are under increasing pressure from outsiders to manage the short term—with shortened tenure evidence of the trend. These ceos warn that technology is key to future success, but it can also consume a disproportionate amount of corporate resources—forcing a balancing act.

A survey from Korn Ferry International suggests that ceos will most likely come from sales and marketing functions, have experience running complex organizations and will most likely come from within the company. Business Week contrasts today's ceos with those in 2020. Today's ceos are predominantly white males in their 50s; in 2020 look for younger and older women and minorities. Today's ceos receive stock options; in 2020 their pay will reflect success of partnerships and employee retention. Today's average ceo tenure is nine years, Business Week predicts it will be as short as a year if results are not demonstrated. Consensus building will replace the command and control style. Priorities will be keeping talent and forming alliances, replacing operations and stock performance. Contrary to what headlines may be suggesting, ceos at 65 large companies remained at the helm for 8.3 years between 1995 and 2000. That's one year longer than in the past, according to a survey by SCA Consulting. Board governance experts and headhunters agree that the statistics are counterintuitive. The study concludes that pay packages and boards unwilling to take chances are the key reasons.

Source: Progressive Grocer, August 2000. The New CEO, by Len Lewis, p. 20-30. Business Week, August 28, 2000. The Boss in the Web Age, by Nanette Byrnes, p. 102-8. The New York Times, August 16, 2000. Cornering the Corner Office, by David Leonhardt, p. C1, C7.

Canned goods less nutritious: NOT!

A study conducted by the University of Massachusetts compared the nutritional content of 13 popular recipes made with canned and fresh or frozen ingredients and showed it to be equal. Taste, appearance, aroma and texture were measured as well—and came out the same or better than recipes made with fresh or frozen ingredients.

Source: Progressive Grocer, August 2000. Grocery Can-do, In the trade, p. 17.

More light is better: NOT!

More light is not necessarily better in and around supermarkets. While operators and customers have long favored well-lit parking lots for safety and brightly appointed produce departments, lighting experts and environmentalists suggest that more is not the answer. Guidelines for business and municipalities' lighting specialists and professional associations warn that supermarkets that 'overlight' their parking lots create a danger because peoples eyes do not adapt quickly enough. This is a significant problem for gas stations and convenience stores, where accidents happen and create liability problems. Designers argue that overlighting also changes the ambience, noting that less lighting creates a more elegant look. Amateur astronomers protest that overlighting supermarket and mall lots makes their hobby more difficult.

Source: Progressive Grocer, August 2000. Blinded by the light, by Richard Turcsik, p. 57-8.

Adapt new business models...or else: DIE

Gary Hamel, management guru du jour, contends that many of today's companies will not be around for a long time because business concepts/models are becoming obsolete at an increasing speed. Therefore, those unwilling to reinvent themselves regularly will perish. Big business of today, with its expertise in skill, replication and diligence, lacks adaptive and innovative skills present outside. New economy companies are not assured of survival either, because they must figure out how to integrate old economy expertise without compromising their virtues.

Surviving organizations will be those who embrace the Internet; are open; are flat, not hierarchical; and are experimental. Hamel cites Schwab and Enron as examples. To get there he suggests the following: (1) Invest in individual capabilities: dismiss the concept of sustainable competitive advantage, embrace radical thinking as not too risky, avoid thinking that incremental is safe and train people to be heretics. (2) Think connectedness: the number and quality of connections among individuals accelerates ideas. Think of innovation networks unencumbered by geography, hierarchy and other physical or organizational limitations.

(3) Think climate. That can mean abandoning many processes and procedures that countered innovation. Analyze every process for where it favors the status quo or elitism or whatever…and abandon it fast. The danger is that innovative areas can become ghettos or orphanages within organizations. It's a balancing act between old economy expertise and new economy innovation.

Source: Fortune, September 4, 2000. Today's Companies Won't Make It, And Gary Hamel Knows Why, p. 386-90.

Perimeter Design Trends

Store designers are increasing focus on perimeter departments. Designers attribute this trend to its ability to differentiate among retailers and its focus on freshness and convenience. Among the ways retailers are focussing on the perimeter: (1) New store concepts are emerging focussing solely on perishables from meat and seafood to scratch bakery and produce, offering quality and freshness 24/7 to become the destination of choice for immediate meals. (2) Chains are spending 75% of design/renovation dollars on perimeter department and service areas. The funds translate to ways of differentiating conventional operators from the Wal-Marts and Kmarts and from Web grocers. The bottom line payoff comes from increasing sales in these departments, which yield higher margins. (3) Clever cross-merchandisers have learned that value is a function of timing and location. They are taking traditionally price-oriented items such as soft drinks and displaying/refrigerating them individually in other departments (deli, bakery, prepared foods) and selling them for four times the price. (4) Perimeters are increasingly including cafes where coffee and bagels can be sold at a premium. Many argue that the perimeter should not be upgraded at the expense of center store because in the end it is the total shopping experience that the customer remembers and comes back for.

Source: Grocery Headquarters, September 2000. Store design: Destination perimeter, by Amy Hardgrove, p. 79-82.

Employee theft exceeds shoplifting

The National Retail Federation reports that shrink due to employee theft has risen 34% in the past three years, versus a mere 14% increase in shoplifting. This makes employee theft—now totaling almost $13 billion—a bigger source of loss than shoplifting, which currently runs about $10 billion. Realists believe where there is a will there is a way, and that all employee theft cannot be eliminated. The labor crunch has motivated some employers to dispense with comprehensive background checks and to lower honesty standard cut offs on pre-employment screening tests, opening up the door to more problems. Still, retailers are taking an aggressive stand in other areas: (1) After learning that store managers and shrink professionals have been involved at chains including Kmart and Wal-Mart, retailers are firing people and prosecuting them as thieves in criminal court and suing for restitution in civil court as examples and deterrents. (2) Retailers are installing more closed circuit cameras to monitor checkout activities, offices and break rooms. Some cameras have the ability to zoom in as close as an employee's wrist—a popular place for hiding bar code on watch bands to use in fooling scanners. Other technology deterrents include source tags and deactivation systems. (3) Store managers are increasingly responsible for taking out or inspecting trash, since that is an easy way to remove goods. Some retailers require a second employee to inspect merchandise before processing refunds. Other stores use multiple spot checks during the day, where managers compare recently rung up items with what is actually in the bag.

Grocers may cringe at the need for these special practices at other outlets, but all they need remind themselves of is where their profits would be if their shrink approached the 1.7% average of all stores.

Source: The Wall Street Journal, September 7, 2000. As Thievery by Insiders Overtakes Shoplifting, Retailers Crack Down, by Calmetta Coleman, p. A1, A6.

Supermarket shrink status report

Two supermarket studies (2000 Supermarket Shrink Survey and 10th Annual Survey of Supermarket Employees) differ on whether employee theft is increasing. For supermarket shrink reduction, retailers have long known that analyzing individual stores is critical, as well as isolating shrink from theft, receiving and pricing errors and shoplifting. Technology has made measuring the factors easier and confirms that employee theft now accounts for 55% of total shrink and cashiers cause half of that. Primary types of cashier shrink are 'sweethearting'—discounting merchandise for relatives or friends and errors. Some of the tools retailers use include training sessions, data collection and exception reporting coupled with video surveillance. Smaller operators prefer investing in technology because training is so expensive and time consuming and results are questionable. A company culture that empowers employees, treats them fairly, provides safe working conditions and provides equitable pay and benefits is also important.

Source: SN, September 11, 2000. Where the Money Is, by Mina Williams, p. 37-41. Supermarket Business, September 15, 2000. Shrink Has Shrunk, Two Surveys Find, by Bob Ingram, p. 65.

IT execs predict evolution not revolution

Progressive Grocer polled six IT executives at retail and consulting companies about key issues facing supermarkets today. Highlights include: (1) Despite acknowledgement that technology is critical to long-term survival, company technology agendas vary because of limited resources, current sophistication and confusion. (2) Companies continue to avoid 'cutting edge' products in favor of proven solutions (hardware especially) that has at least three years of life. (3) Few companies will ever allocate enough resources to meet all their technology needs, in part because the needs are a moving target and in part because of the reality of budget constraints. Still, increasingly companies are establishing technology officers to direct the efforts they have. (4) Today's challenge is to temper technological advances and needs with competition and efficiency…and to do everything at Internet speed. (5) The consensus is that the Internet will continue to change the role of technology as B2B exchanges, EDI and communication standards grow. Wireless technology is likely to be the next quantum change.

Source: Progressive Grocer, September 2000. Tech talk 2000, by Barry Janoff & Jenny Summerour, p. 57-62.

Diffusion marketing

Viral or diffusion marketing involves finding early adopters of products who are influential with their friends and leveraging them to help sell the products. Procter & Gamble has embraced the practice and now has Innovation Locations in two Ohio malls. The kiosk-like operations are adjacent to Sunglass Huts and have vending machines that actually sell new or test products along with salespeople to educate customers. There are touchscreen computers that deliver the pitch as well. Urging passers by to 'tell your friends' and 'imagine the what's next,' Procter & Gamble is now featuring four products: Impress plastic wrap, Spire nutraceutical beverages, Crisco CookSmart (canola oil blended with soy) and Thermacare heat wraps, a new entry in the thermal analgesic category. P&G plans to preview products 6-12 months ahead of national launch in these Innovation Locations, rotating them every month or two. Shoppers who buy from the on-site kiosk or over the Web will be invited to join an Innovators' Club entitling them to 5% discounts and P&G to a database for future research. Although P&G is identified in the privacy statement, the company name is not present elsewhere on the site.

Source: Advertising Age, September 4, 2000. P&G goes viral with test of Innovation Locations, by Jack Neff, p. 3.

Independents' survival manual

'A New Vision for the Center Store,' a study commissioned by The National Grocers Association (trade association that champions the causes of independent grocers) confirmed two reasons for sales declines at independents: competitive channels building center store sales and independent operators' focus on the perimeter departments. NGA cites nine things that will ensure the success of these retailers: (1) repeal of the estate tax, (2) creating a level playing field, (3) reinventing the supermarket as a lifestyle destination center, (4) winning back center store sales, (5) recruiting the next generation of managers and entrepreneurs, (6) operating as a virtual chain—meaning uniform technology platforms, stronger trading partner relationships and category management (7) taking full advantage of technology, (8) creating new synergies for economies of scale and (9) accessing competitive growth capital.

Source: Grocery Headquarters, September 2000. Independence day: Survival of the fittest, p. 38-44.

Consumer promotion status report

Based on a 9.5% response rate to 1000 questionnaires, Incentive magazine reports on what's new in consumer promotions: (1) Manufacturing companies continue to run the lion's share of consumer promotions, accounting for 41% in 1999. Service companies come in second at 23%. No other type of company (distribution, retail, professional or transportation) accounted for more than 14%. (2) The most popular type of consumer promotion is loyalty or frequent buyer, used by 60%. Direct premiums and sweepstakes/contests were used by about half of respondents. Less than one-quarter use mail-ins, self-liquidators or factory packs. (3) Almost 90% of respondents say the promotion objective is to increase or maintain sales. Three-quarters cite customer loyalty as an objective. One-quarter or fewer mention sampling new users, shelf attention and store displays as promotion objectives. (4) Two-thirds of respondents advertise consumer promotions via direct mail. More than half feature something at point-of-purchase. 46% say they use the Internet. About one-third use magazines or newspapers. (5) A majority say consumer promotions are very effective; only 16% say the same of Internet promotion.

Source: Incentive, September 2000. 2000 Consumer Promotion Facts Report, p. 27-30.

Business and the Environment

Consumers are becoming increasingly concerned about the environment. Yankelovich reports that 24 %of adult Americans are extremely concerned or very concerned about what they can do personally to protect the environment and natural resources. A Gallup survey showed that 90% of respondents try to buy from companies that are concerned about the environment. When price and quality are equal, American Forest (conservation group) reports that 75% of consumers will switch to a retail outlet that is associated with a good cause.

These statistics explain in part why retailers are considering the environment in new store development. For example, in developing a six acre site, HEButt elected to use only nine acres preserving 85% of the parcel versus the 65% required by local law. The roof uses a rain water collection system and there is a reirrigation pond that takes parking lot run off to water the landscape. Recycled building products were used and energy conservation systems were built into the dairy and deli departments. Because of refrigeration needs, these department require high energy consumption.

Retailers have learned this environmental friendliness is not necessarily more costly and can represent a sound investment in community relations. Grocery retailers, because they are so visible, are often the target of local activists. By exceeding municipal requirements, they can diffuse any negative publicity.

Source: Grocery Headquarters, October 2000. Embracing the environment, by Megan Ladage, p. 18 -22.

Better signage

Design specialists agree that store signage is a balancing act: communicating without overdoing. Useful guidelines include: (1) Avoid visual clutter to ensure the basic message gets across. Be sure visuals are well-lit and clear. (2) Use precise language with a minimum of words, but with clear instructions reflecting a hierarchy of information needs. (3) Use color to communicate: green for produce, blue for thirst quenching, yellow for freshness and red for specials. Be consistent. (4) Walk the aisles as shoppers to ensure that endcases are at the right height, that lighting shines correctly, that typefaces are sized properly and legible. (5) Be careful not to 'over sign.'

Source: Store Equipment & Design, October 2000. Sign language, by Ruth Mellergaard, p. 30.

Better shelf management

Category management means that every shelf is carefully allocated. While category management ultimately leads to increased sales, retailers often incur labor charges in ensuring that shelves are properly executed. Put simply, effective category management must also address the cost side of the equation.

Suggestions for improving shelf management: (1) Installing shelf dividers on existing shelves to make restocking more obvious and quicker. (2) Adding signage to existing shelf rails so clerks know where to restock and shoppers know what they are getting. (3) Adding gravity or spring-fed pushers to improve shelf integrity. (4) Angle shelf edge tags upwards on lower shelves to better sell to shoppers and communicate to clerks. (5) Installing a shelf plan diagram on shelves so stockers know where to put products. A European study showed substantial sales increases attributable to shelves with dividers and clear edge signage: 10-25% for confections, 11-20% for rice and pasta, 10-15% for snack foods and 8-17% for soups and sauces.

Source: Store Equipment & Design, October 2000. Shelf management, by John Frank, p. 38.

E-tail savings are real

For two years in a row economists at Lehman Brothers have conducted a survey comparing e-commerce prices with those prices at moderately-priced outlets in the New York area. In 1999, Web prices (including shipping, but not taxes) were 13% lower. In 2000, the prices were 15% lower. Recently, e-tailers have come under increased investor scrutiny as patience for profitability dwindles. With discounts on the Web continuing—at least when the survey was conducted—profitability will not happen any sooner. The most heavily discounted items in both years of the survey were prescription drugs and clothing. Discounts declined on VCRs and liquor, and increased on toys and hardware.

Source: Business Week, October 2, 2000. Web Discounts Are Still Hefty, p.40.

Size, building, remodeling

According to Facts About Store Development 2000 from FMI, in 1999 average supermarket size declined for the first time in five years, but store openings continued to outpace closings. Last year the typical store opened was 49,000 square feet, the smallest in five years and down from 1998's high of 57,064 square feet. This was attributed to the scarcity of land and building costs increasing by 15%. Average minimum rental rates for existing stores increased by 25%. New store openings (5%) reached a decade high, and openings outpaced closings by a margin of 2.1%. Major remodeling rates are at the second lowest point in ten years in 1999 because costs have increased sharply. New store construction focussed on one-stop shopping. More than half of all new supermarkets reported an in-store bank or ATM; 68% featured a pharmacy, 25% included separate natural foods sections. Supermarketers made fresh food for takeout available in 59% of new stores, on-site photo processing in 29%, dry cleaning in 22% and in-store childcare in 12%.

Source: SN, November 27, 2000. Stores Get Smaller, But With More Services: FMI, p. 4.

Designs for the future

SN-Supermarket News interviewed store design experts to determine trends that are likely to withstand the test of time and emerge as standards for a new generation of supermarkets. Among the trends: (1) Creating a brand message for the store. This requires strategic thinking about what differentiates one company from another. If it is prepared foods, then a 'kitchen' concept helps brand the store, if executed as a store-within-a-store. For companies known for value, experts use a warehouse style for center store with consistent flooring and graphics, but carefully set it apart from perishables, where a value image is less compatible with quality. (2) Using new display techniques to highlight center store aisle. These techniques include angling displays in the center of a long aisle to break up monotony and feature products, adding complimentary lifestyle foods to the soda and beer aisle to provide solutions to shoppers and more cross-merchandising in general. (3) Planning for Internet integration from the outset. This means installing electrical and other wiring for potential kiosks and designing access areas away from the store front where shoppers can pick up orders quickly. With so many unknowns, flexibility must be built into overall design to allow for finetuning.

Source: SN, November 13, 2000. New Blueprints for Store Design, by Jon Springer, p. 1, 9-16.

Store design predictions

Predictions and advice from a store design insider: (1) Although stores are reaching their maximum size, services will increase. Look for more dry cleaners, coffee bars, even hairdressers and book stores. (2) Home delivery will become commonplace and a cost of doing business. (3) Backrooms will receive increasing attention as designers develop areas for assembling home delivery and pickup orders. (4) The store-within-a-store concept has yet to be fully developed.

Source: Store Equipment & Design, December 2000. From Wales to the West Coast, by Will Daley, p. 18, 24.

Cooperation for efficiency possible

Dutch retailer Royal Ahold NV is talking with US partners, including C&S Wholesale Grocers, about building and operating the country's largest food-distribution center. The facility would supply the 1,100 supermarkets that belong to Ahold's five US retail operating companies and would be completed in 2003. Central distribution in the US has up until now not been regarded as efficient because of distances, road congestion and fuel costs. But Ahold believes the economies of scale in purchasing would now outweigh any added cost of transporting goods from one central location to stores. Its existing US distribution centers would be used for cross-docking. Ahold would ask suppliers to pass along savings.

Source: The Wall Street Journal Europe, December 5, 2000. Dutch Ahold Mulls Central Distribution On US East Coast, by James Dorsey.

Supermarket Strategic Alert

ORDER FORM

Name ____________________

Title ____________________

Company ____________________

Street ____________________

City ____________________ State/Zip____________________

Phone ____________________ Fax ____________________cd

1 Select the items you want to order

select	product	price	total
	One year subscription to Supermarket Strategic Alert	$795.00	
	Two year subscription to Supermarket Strategic Alert	$1500.00	
	2001-1997 CD-ROM Archive (60+ issues) for subscribers for non-subscribers	 $400.00 $500.00	
	2002 Edition: Year In Review 2001 for subscribers for non-subscribers	 $400.00 $500.00	
	TOTAL		

2 Choose your method of payment:

☐ check (on a US bank) or money order made out to Pollack Associates

☐ credit card: circle one : VISA MasterCard AMERICAN EXPRESS

Card # ____________________ Expiration date ____________

Signature ____________________

3 Send us your order:

Fax or mail your credit card order to:
(212) 202-3501

Questions: (212) 734-0753
taxpayer ID: 13-3607819

Mail your check or money order to:

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