

## THE CHANGING RETAIL ENVIRONMENT\*

STANTON, John

Saint Joseph's University,  
5600 City Ave. Philadelphia, PA 19131  
e-mail: Jstanton@sju.edu

A VÁLTOZÓ KERESKEDELMI KÖRNYEZET

A vásárlói magatartásban végbemenő változások, valamint azok hatása az élelmiszer-termelésre és -kereskedelempre sem negatívan, sem pozitívan nem minősíthetők. Az előrelátó vállalatok számára a változások alkalmat kínálnak a lehetőségek kihasználására. A hajthatatlan és alkalmazkodni nem képes vállalatok azonban szép lassan eltűnnek. A legnagyobb kihívás a változásnak ellenálló élelmiszer-ipari vállalatok számára az, hogy felismerjék, az új elosztási csatornák egyénileg nem, de összességében nagy részt vesznek el az értékesítésükből. Az üzleti világban teljesen mindegy, hogy egyetlen versenytárs 20%-ot vagy 10 versenytárs egyenként 2%-ot birtokol a piacból, mindkét esetben a piac 20%-át elveszítjük.

Kutatások kimutatták, hogy a bevásárlásnál mobilt vagy elektronikus eszközöket használó vásárlók ritkábban látogatnak hagyományos értékesítési csatornákat és kevesebbet is költenek azokban. A látogatási gyakoriság pedig döntő fontosságú a tradicionális csatornák számára. Amikor a fogyasztók szupermarketben vásárolnak, hajlamosak jelentős összeget kiadni olyan termékekre, amelyek eredetileg nem szerepeltek a bevásárló listán – ilyenkor impulzusvásárlás történik – vagy az akciók kihasználása, amelyekre a fogyasztó nem számított. Az új technológiák arra készítetik az élelmiszer-feldolgozókat és -kereskedőket, hogy üzleti tevékenységüket átgondolják. Igaz, az innováció terjedése országonként más és más, azonban élelmiszer-ipar nemzetközivé válásának és a mobil technológia terjeszkedésének köszönhetően sokkal gyorsabban végbemegy, mint a korábbi időkben. Az élelmiszer-ipar profitabilitása továbbra sincs veszélyben, de azok, akik előnyt szereznek talán nem azok az emberek, akik 30 évvel ezelőtt voltak.

## 1. CHANGE IS CONSTANT

In the food industry change is constant. Changes are taking place in every aspect of the industry. The vanguard to the changes in food production, food distribution and through retail is the changing consumer. While it may sound trite to say that the consumer is king, it is true that the food industry adapts to the consumer.

While the consumer has always been changing and the industry adapting, the changes in the last 20 years have been more dramatic than any time since the Baby Boom. The difference in families is most dramatically demonstrated in US television. In the 1950s the family shows were comprised of the idyllic household of a wife at home, a husband at work, and two or three children. Today the TV show "Modern Family" shows an extended family made up of a mixed cultural family (with a Hispanic), a gay couple adopting an Asian child, and the more traditional family with three kids.

In most of the world one of the biggest changes taking place is the family size. Today in the US the fastest-growing family size is single person households. In the United States slightly less than a third of all households are single person households. But the emergence of single person households is not strictly an American phenomenon. For example, the percentage of single person households in Sweden is 47%, in France and Britain 34%, and in Japan 31%. Korea has the fastest growth in single person households.

In many parts of the world but especially in the US we are seeing more "sandwich households." These are households that are composed of three generations, i.e. children, adult couple, and seniors or grandparents, living under one roof. Boomerang kids (children who return home to live with their parents after their education is complete) are becoming more common every year.

In the US another huge change is the increase in the number of immigrants, in particular the Hispanic population. For example, the white, non-Hispanic population of the US is declining in population at a rate of slightly over 1%, whereas the Hispanic population is growing at a rate of about 150%. The growth of minorities in the US is not restricted to Hispanics. In fact, the United States is now the second-largest Spanish-speaking country in the world second only to Mexico. The increase in the Asian population of the US is over 100% as well.

One last notable change is the continued time famine around the world. The percentage of women in the workforce has continued to increase and has put pressure on families as to how they shop, prepare, and serve food.

It should be clear that countries around the world may not be facing the same immigration problems as the US but there's no question that population migration is having an impact on many countries around the world.

\*The article is a result of a talk given at Kaposvár University, the 5th International Conference of Economic Sciences in Kaposvár\_Hungary 2015

## 2. HOW IS RETAILING CHANGING?

For most of the past 50 years there have been two primary channels of distribution for food: the supermarket for food eaten at home and restaurants for food eaten away from home. However, the distribution channel for food has changed dramatically.

As one can see in the chart *Figure 1*, the greatest growth is in non-traditional channels with traditional channels with the lowest channel growth.

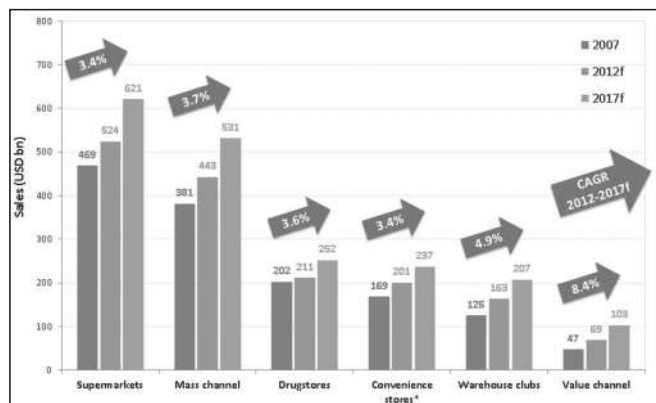


Fig. 1

US: Channel Size by Sales, 2007-2017f (USD bn)

\*Note: Convenience store sales represent merchandise sales only; f – forecast.  
Source: US Department of Commerce; National Association of Convenience Stores; Planet Retail

## 3. MASS MERCHANTS

Mass merchants around the world have traditionally sold food, most notably Carrefour and Walmart. However, mass merchants are recognizing that the frequency of shopping for food is significantly greater than the frequency of shopping for other general merchandise, so the stores have increased their food offerings. In the United States, Target has substantially increased the amount of food sold in the store. This is not specifically the SuperTarget stores that have always offered a wide variety of food, but rather the traditional Target format which focuses on the time sensitive consumer who is shopping for tonight's meal and not doing their weekly shopping.

The same mass merchants are also downsizing their stores to make food shopping more convenient for the time sensitive shopper. When a consumer needs just a few items, they don't necessarily want to spend the time walking through a 100,000 ft.<sup>2</sup> store just to get groceries for tonight's meal.

## 4. CONVENIENCE STORES

Possibly one of the largest changes taking place in the food distribution system is how convenience stores have changed from small locations to buy coffee, tobacco, hotdogs and newspapers into full-service food operations. In most cases convenience stores have significantly expanded their food offerings. Much like the mass merchants, they are primarily targeting people who are looking to buy food for that specific meal: breakfast, lunch or dinner. Current trends are focusing on "fresh" as much as any other attribute.

*Figure 2* below shows a photo of the modern convenience store.



Fig. 2

A Wawa Convenience Store In Philadelphia Pennsylvania

Convenience stores that sell gasoline have also been exploring the use of materials promoting their food offerings and the store at the gasoline pumps while the individuals are refueling their cars. There are currently a number of different systems being tested, but the concept of letting someone use their credit card to charge their fuel as well as food items in the store is a major convenience alternative. *Figure 3* below shows an example of printing receipts at the pump to be taken into the store to avoid waiting at the cash register.

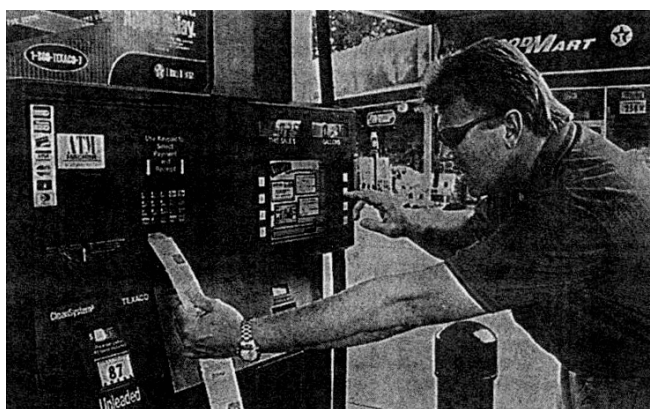


Fig. 3

Convenience Store Use of the Fuel Pump for Promotion

## 5. PHARMACIES

While pharmacies have been selling food in the US for some time they have been expanding their offerings to include fresh foods, refrigerated and frozen foods. This trend is currently less developed in Europe but one can say that European pharmacies are adding food products to their product assortment. Some skeptics have argued that they are just selling candies and cookies and not really selling fresh or refrigerated foods. It is important to point out that that's exactly what the US pharmacies began the selling. The profitability and increase store traffic has continued to push pharmacies in the direction of more food.

Pharmacies are also taking advantage of their distribution system and the number of stores they have. For example, if one

looks at chains with the largest number of outlets, pharmacy chains represent three of the top 10 largest chains by store numbers. Contrast this to the fact that only one of the traditional supermarkets is in the top 20.

Figure 4 below shows that one of the largest pharmacy chains in the US is even referring to itself as a food market in its printed material as well as on the marquee in front of the store.



Fig. 4

#### CVS Printed Promotional Materials

## 6. VALUE STORES AND DOLLAR STORES

The value stores, in the US known primarily as dollar stores, are the fastest growing retail format. Not only are they ubiquitous but they are morphing into more traditional food stores. While they are quite different from traditional supermarkets, they still have a remarkably broad product offering in the food category. While they carry few brand names, their products are often inexpensive. Equally important is that they do not have a consistent product line, so shoppers make frequent visits to uncover the next great bargain. In the US today, dollar stores include refrigerated and frozen food as well as center of the store items.

Known in other countries by names such as the Poundland and 99p stores in England, 5 Yuan Stores in China, 1 € stores in Europe or the 100-yen store in Japan, these small but inexpensive stores are appearing all over the world.

## 7. VERY NON-TRADITIONAL FOOD OUTLETS

The aforementioned channels of distribution while non-traditional clearly look more like food stores within other types of outlets. The remaining channels of distribution focusing on food are in fact truly non-traditional in the sense that any food marketer would think of food. These segments are still very small but growing, and growing because they're satisfying certain consumer needs which are not being satisfied by other channels.

### 7.1. TV Shopping

While most people think of the TV shopping networks which exist in virtually every country in the world as selling primarily clothing, cosmetics, jewelry and other bric-a-brac, today these TV shopping networks are selling a lot of food. The key to the success of these channels is that the host creates a relationship with viewers which cannot be done in traditional grocery stores. In most cases the seller has some "unique" story to tell the viewers about why

this food product is so special and worth the rather high price that is usually asked. This channel is clearly small but it can be very profitable. It is reported that the shopping networks expect the food companies to sell \$250,000 worth of food every 15 minutes.

While traditional food marketers are struggling to get consumers to pay three dollars for a jar of pasta sauce, a pasta sauce on a TV shopping network was sold for \$14 a jar. It may be a low level of sales, but TV shopping networks provide a very high margin. It also represents an excellent channel for small companies that cannot afford to sell to the large retail chains.

What kind of foods are sold on television? Every kind. For example, below is a list of the various food categories sold on a popular TV shopping network and the number of items available: Appetizers & Sides (15), Beverages (77), Bread, Muffins & More (7), Brownies, Cakes & Cupcakes (92), Chocolate & Confections (50), Coffee & Tea (20), Cookies (25), Entrees (33), Fruits & Nuts (13), Meats & Poultry (55), Mixes (45), Sauces & Seasonings (10), Seafood (9) and Sweet & Salty Snacks (36).

### 7.2. Subscription Services

There is no question that people in any country buy certain products on a regular basis. This tendency has been captured by a variety of companies that send you their product in any frequency you desire on a regular basis. These products range from baby care products such as disposable diapers to men's razors. Specifically related to food there are companies such as Try The World, a fabulous box delivered every other month with tasty treats from another country, from Parisian cookies to Turkish delights from Turkey; Munchpak, a pack of 12 or more full-sized snacks from all over the world (from Pocky to Cadbury). Blue Apron provides a service delivering fresh ingredients and fun recipes to your doorstep to help you craft delicious meals while saving time. There are even subscription food services such as Toys 4 Tails.

### 7.3. Day care

Two parent working households have reported that making two stops on the way home from work is difficult. One of the stops is to pick up their children at the daycare center and the second stop is to pick up food for that night's dinner. In most of the world taking children out of the car through the parking lot and into the supermarket is an onerous task.

There are two distinct ways the systems work. One is to provide all the ingredients needed to make a specific meal including the recipe (not unlike the Blue Apron subscription service mentioned above). Parents that wish to prepare the meal themselves and have everything they need to make a meal. A number of day care centers such as Little Leprechaun offer parents the opportunity to pick up a meal when they pick up their kids. Little Leprechaun advertises "Fresh, nutritious meals and snacks prepared by our on-site gourmet chef prepared Home-style Meals Available for Takeout."

There are clearly two advantages to this food service operation. One is a differential advantage over other day care centers. The day care center is a more attractive choice because it offers food. However, while food service is not the main objective of the day care center because it is so convenient it can charge a higher margin price for the product because it is so convenient.

### 7.4. Vending

When one thinks of vending they usually think of snacks and soft drinks. However, due to technological advances in vending machines you can now find almost anything in them. Vending has been used in a number of different distribution models. One model is to place the vending machine in high-traffic areas with products that people need on a regular basis. These are often found in an alcove of a large office building or in any building inset along a busy street. A second model is the use of vending in the lobby of the supermarket as a substitute for a 24-hour open store. Supermarkets have a very good idea of what products they sell during the late night and early morning hours. Generally, the assortment of products purchased is rather small and therefore can be accommodated in a vending machine. While the vending machine prices may be the same as the in-store pricing, placing these items in vending machines has two key advantages. The most obvious is that the whole store doesn't need to be open but the second is that the machines don't usually accept coupons or other giveaway promotions that might be available within the store making vending exactly the same prices as higher margin sales.

Figure 5 and 6 below shows examples of a broad product choice vending machine called the Automatic Convenience Store. While it may not be clear in the figure, this vending machine offers multi-temperature products such as refrigerated food as well as center store items. Figure 5 shows a vending machine that exclusively has products for baby care, products that are frequently needed any time of the day or night plus a state of the art soda vending machine.



Fig. 5 Vending Machine Example

Oops! Forgot the diapers and formula



Buy a Pepsi, "gift" a Pepsi

Fig. 6 Vending Innovation

The development of vending is certainly not an American only phenomenon. In Hungary they have vending machines that provide fresh milk. Figure 7 shows a vending machine from Central Europe.



Fig. 7 Central European Vending Machine

### 7.5. Business Supply stores

Many of the non-traditional food distribution channels are obscure to those businesses that market exclusively to the traditional channels of distribution. One of the best examples is the business supply stores such as Staples in the US. While the main business of this channel is paper, computer software, writing supplies, and hardware, most people would be surprised at the number of food items that are available in most stores.

The business supply stores sell a very specific line of food products, those products that are traditionally available in business offices. They sell coffee, coffee machines, napkins, sugar, creamers, biscuits, and of course candy. Figure 8 shows an example of a promotional piece created by Staples which advertises food, i.e. coffee.

Places such as Staples and Office Depot are selling more food every year.



Fig. 8 Example Of Business Supply Advertising Food

### 7.6. Conclusion for non-traditional channels

There is no question that these non-traditional channels individually will not put supermarkets and other traditional food channels out of business. However, in most cases, these channels do

most of their damage by eliminating visits to the traditional supermarket. If someone stops at a vending machine to pick up a couple of small items, it may very likely mean that they didn't make a visit to a supermarket to get those same items. Office managers used to have to go to a supermarket to buy those food supplies such as coffee and sweets needed for the office, but now they need only to pick up the phone and when they buy their paper supplies and ink, they can also order all the office "edibles." Again the real damage is not the loss of a few items but rather the loss of a visit to the supermarket.

The second conclusion is that not all of these channels of distribution will grow to be enormous but some most likely will. Food processors have made a mistake in the past by ignoring emerging channels of distribution to focus on the channels that had been making the most money. It is reported that when Procter & Gamble won the award for the best supplier to Walmart, the president of Procter & Gamble ignored the award and allegedly said, "Who are these guys?" Food processors need to be aware of the opportunities that these non-traditional channels of distribution could offer and food retailers need to be aware of the threats that they may pose to their traditional businesses.

## 8. MOBILE SHOPPING

It is almost inconceivable to think of what is happening with online and mobile food shopping. An entire article can be written (and probably has been written) on all that is happening in this developing area. In this article let me just highlight a couple of the major developments taking place. This by no means is meant to be an inclusive list or in any way be a list of what has the most future potential. The purpose is to highlight some of the most exciting new methods of promoting, ordering and delivering food.

### 8.1. Home delivery

While there have always been home delivery services in the US and in other countries around the world, Amazon has developed an incredible system. While this is currently primarily available in the United States, anyone who is aware of Amazon knows that they view their marketplace as the world.

Currently the company has free same-day home delivery in many cities throughout the US. However, if you want to do your regular shopping on Amazon and have it delivered by post, it offers over 500,000 different food items. A large US grocery store may have as many as 60,000 items, and a typical grocery store may stock as many as 30-40,000 items.

Much like the other non-traditional channels there can be high-margin in this distribution channel because they don't accept coupons or other promotional activities which frequently reduce the margin on the products. The management of an online home delivery service is a logistical nightmare but this seems to be exactly the type of situation in which Amazon thrives.

Amazon is not the only company to be in the home delivery market. In the US companies such as Peapod and Fresh Direct also provide the same service. While not having the same wide variety of foods available as Amazon, these companies carry most of the items that a typical family would want as part of a regular shopping trip.

### 8.2. Supermarket web pages

When web pages first became popular, many supermarkets thought that this would be a way to sell more directly to the customer but most were disappointed. However, what many supermarkets discovered was that their webpage became an excellent communication vehicle on a one-to-one basis with their supermarket shoppers. While not directly leading to sales, many supermarkets' web pages have made shopping easier and therefore more likely for consumers to make a visit to the store.

One of the most effective uses of supermarket web pages is to create shopping lists for consumers. In the more developed cases supermarkets maintain a list of products that that specific consumer typically buys and places them on a shopping list that can either be printed or examined in the store via their cell phone. However, the most exciting feature is the ability to say, "I would like chicken tonight" and the supermarket web page will provide a list of possible chicken dishes that the consumer may consider. When the consumer selects one of the dishes, all the ingredients necessary to make that dish are added to the consumer's shopping list and a recipe is printed out as well.

Many of the more sophisticated systems allow the food retailer to continue to accept promotional dollars from food manufacturers by making consumers aware that the items on the shopping list can include promoting branded items. Thus the shopping list might say a "can of tomato soup" and then say, "Campbell's tomato soup is on sale this week."

Food retailers are also allowing consumers to check not only the prices of their products but also the prices of the competitors' products. Initially supermarket operators thought this was a bad idea because it provided information not only when their products were less expensive but also if their products were more expensive. The data is still not totally available on this but it appears as if consumers appreciate the ability to see competitive prices, but assuming that the prices are reasonably similar it dramatizes the small differences in the prices paid while there is no need to "shop around for the lowest price."

### 8.3. In store-promotion

In-store marketing using various sorts of technology will be more impactful and more individually directed than ever before. Instead of having a claim signed on the shelf proclaiming the product is on sale, today's technology equipped consumer will walk down the aisle and their mobile phone will send a message telling them that a product that they frequently purchase is on sale, provide them a coupon for that product and potentially even provide a recipe for the use of that product. *Figures 9 & 10* show an example of all the options that exist using the mobile phone and GPS.

This technology will also have more aggressive messages in that it can detect whether or not a consumer has walked down a particular aisle, and can alert them that products they have previously purchased are on sale in the aisles that they missed.

Supermarkets are also using electronic pricing on the shelves which permits them to change prices depending on the time of day and managing the revenues from various product categories. For example, it may make no sense to offer prepared meals as a special on weekday mornings when the target audience is clearly at work. On the other hand, it may make no sense to put nutriti-

onal supplements and other products targeted to older consumers on sale at the dinner hour when most of the consumers are buying meals for that night's dinner. This system allows the coordination of promotion and prices based on who's shopping in the store.



Fig. 9

#### Shopping List Use Of Cell Phones



Fig. 10

#### Instore Shopping Promotions

#### 8.4. Where is the store?

The concept of the store itself is changing due primarily to technology. An example that exists in both Europe and the United States is a Billboard supermarket. As seen in Figure 11 a large number of products are presented on billboards which may appear in subway stations, bus stops or other mass transit locations. Consumers then only need to use an app and focus on the QR code and that product will be sent to their home.



Fig. 11

#### Shopping List on the Cell Phone

#### 9. CONCLUSION

The changes that are taking place with consumers and the effect that they are having on both food production and food retailing cannot be classified as either positive or negative. For the companies that are forward-looking, this will present an opportunity to ride the wave of the change in consumers. For those companies that are intransigent and refuse to adapt to the new world, they will slowly, and most likely very slowly, disappear.

It is ironic that the largest chains in the world are adapting the most to all of the different marketing alternatives. On the food processing side, it is generally the big manufacturers such as Procter & Gamble who are looking into all of the different modes of communicating and selling food to consumers. It is ironic because we seem to expect the smaller, more agile companies to be taking advantage of these changes.

The biggest challenge for the food companies that refused to change is recognizing that none of the new channels of distribution are individually taking a large share of their sales. It seems that many act as if these new channels are not really hurting them. However, they missed two important facts. One is that there are so many different ways to sell to consumers, that while any one new channel may not be hurting the traditional supermarkets or the traditional manufacturers who refused to enter new channels, the large number of these new players combined are each taking a small piece of the market. In business it doesn't matter whether one competitor takes 20% of your business or 10 competitors each take 2%, in both cases you have lost 20% of your business.

The second fact is that when a consumer stops at a convenience store, or buys a product from the television shopping network, or picks up some products in the food section of a mass merchant, then the traditional channels of distribution are losing a visit. Research has shown and not surprisingly that consumers who use mobile or electronic devices as part of their supermarket shopping make fewer visits to the traditional channels of distribution and in general spend less in those channels of distribution. It is the number of visits that should be critical to the traditional supermarket channel. As has been reported over the years, when people shop the supermarket for their regular weekly visits they tend to spend a significant amount of money on products that are not necessarily on the shopping list, whether the products would be considered impulse purchases or the consumer is taking advantage of promotional programs that they did not expect. All of the sales opportunities are lost if a consumer fails to come into the store.

The message is think anew and act anew. All of these new technologies require food processors and food retailers to accept the fact that they will have to do business differently in the future than they are doing today. While it is true that the diffusion of this innovation will vary from country to country, it is also true that this diffusion is generally much quicker than in previous time periods due to the internationalization of the food industry, and the diffusion of mobile technology in all countries around the world.

The profitability of the food industry is not in jeopardy, but those who take advantage of these profits may not be the same people as they were 30 years ago.