

OPINION



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Suppliers must diversify customer portfolios

Everywhere you turn these days, there's a new retail format selling food with potential for incremental growth and more cost-effective connection with your end consumers.

Trips to the traditional grocery store are waning as consumers split their purchases between supercenters, warehouse clubs, dollar stores, mass merchandisers, drug stores, even invent-your-own stores like Trader Joe's. Then there's food service with its own mix of venues.

Many of these newer venues don't offer fresh fruits or vegetables. And studies show that the future success for at least two of the traditional channels - grocery stores and convenience outlets - ride on the quality of their "fresh" offering.

Some channels are growing much faster and at the expense of others. And costs of doing business vary from channel to channel. This means it's increasingly important for suppliers and promotion boards to have a portfolio of channel management strategies to connect with consumers across the marketplace.

The proliferation of different channels can be interpreted as the market's response to changing consumer needs. Each new channel serves specific needs in a better way.

These channels offer suppliers different ways to market and serve consumers. Each has its own consumer value proposition - the way it uniquely serves the consumer.

Each channel also has its unique requirements for suppliers - distribution, slotting allowances, retail support, packaging and the like.

A major difference among the channels is how profitability is generated. Some focus profits on buying and others focus on selling. Slotting fees and aggressive price deductions signal a focus on garnering profit through buying.

Opportunities abound for entrepreneurial produce suppliers and promotion boards willing to take another look at how they segment and tailor retail strategies to drive incremental sales in the multi-channel marketplace.

The reality is that most suppliers see only a couple of segments: traditional grocers, Wal-Mart, Costco and then possibly all others. Future success lies with dissecting all the other segment. Some examples:

DOLLAR STORES: There are some 10,000 dollar stores in the U.S. - the likes of Dollar Tree, Family Dollar, 99 Cents Only Stores, Dollar General. This is *the* hyper-growth retail channel that continues to steal significant market share from the others. You won't find slotting fees or other challenges associated with traditional grocery stores here.

Dollar stores offer low prices and a wide selection of staples with a simple pricing structure. These stores are concentrated in rural areas of the South but have moved into all regions. Initially, according to ACNielsen, the focus was on low-end consumers - and still is with more than half 58% of their shoppers coming from poor or nearly getting by households. But the consumer base is also broadening.

For the supplier, dollar stores mean offering the right items, in the right pack at the right price. Major dollar store chains are selling perishable food, and it's only a matter of time before segment leaders figure out a way to create an aggressive high-volume fresh produce offering - an opportunity for produce entrepreneurs.

DRUG STORES: Many drugstores now offer a limited assortment of food, including produce items. Combine the two leading chains, Walgreen and CVS, and you have a 10,000 store marketing channel.

The drugstore segment's core business is health care and cosmetics and these chains are yet to figure out how to sell food, let alone fresh produce. The disconnect is temporary - another opportunity for the produce industry.

C-STORES: Growth from convenience stores has slowed because of increased competition for gasoline and tobacco sales. C-stores are all about travel-convenient, single-serving packaging at premium prices. They represent thousands of new sources of distribution for the produce industry. Their future, according to a study from Retail Forward Inc., rides on satisfying consumer demand for fresh and chilled foods.

Regional chains, are growing because they're giving the local community what it wants with local products and superior service. Dallas-based 7-Eleven, for example, has 6,000 stores and sees fresh produce as an integral component of its fresh food strategy, which is approaching 10% of its sales.

SUPERCENTERS: Supercenters selling food - the Wal-Marts and Targets of the world - now have 21% of grocery sales, according to a McKinley & Co. They've penetrated every category - price sensitive or not, rich and poor, young and old. They are building on price, but also on breadth of assortment, private labels, better in-store experience, friendly service and convenience.

About 55% of Americans visit Wal-Mart at least once a week making picking up groceries convenient. McKinsey says these supercenters are at parity with traditional grocers on quality of fresh food, frequent sales and national and store brands.

It's worth the effort to talk about where you fit in the new, multi-channel marketplace. To do this, look at the entire field of marketing channels, set priorities and focus on those channels that help you connect with consumers in the most cost-effective way. Given the pressure for greater efficiencies, this is more important than ever.

In detailing the changing retail market structure, the Spring *Food Foresight* trends report predicts dollars and products will continue to shift to these new channels. With Wal-Mart supercenters continuing to grow and increasingly disrupting the marketplace, building a strategy with a portfolio of channels will be increasingly important to maintain a solid - yet diversified position in the market.

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