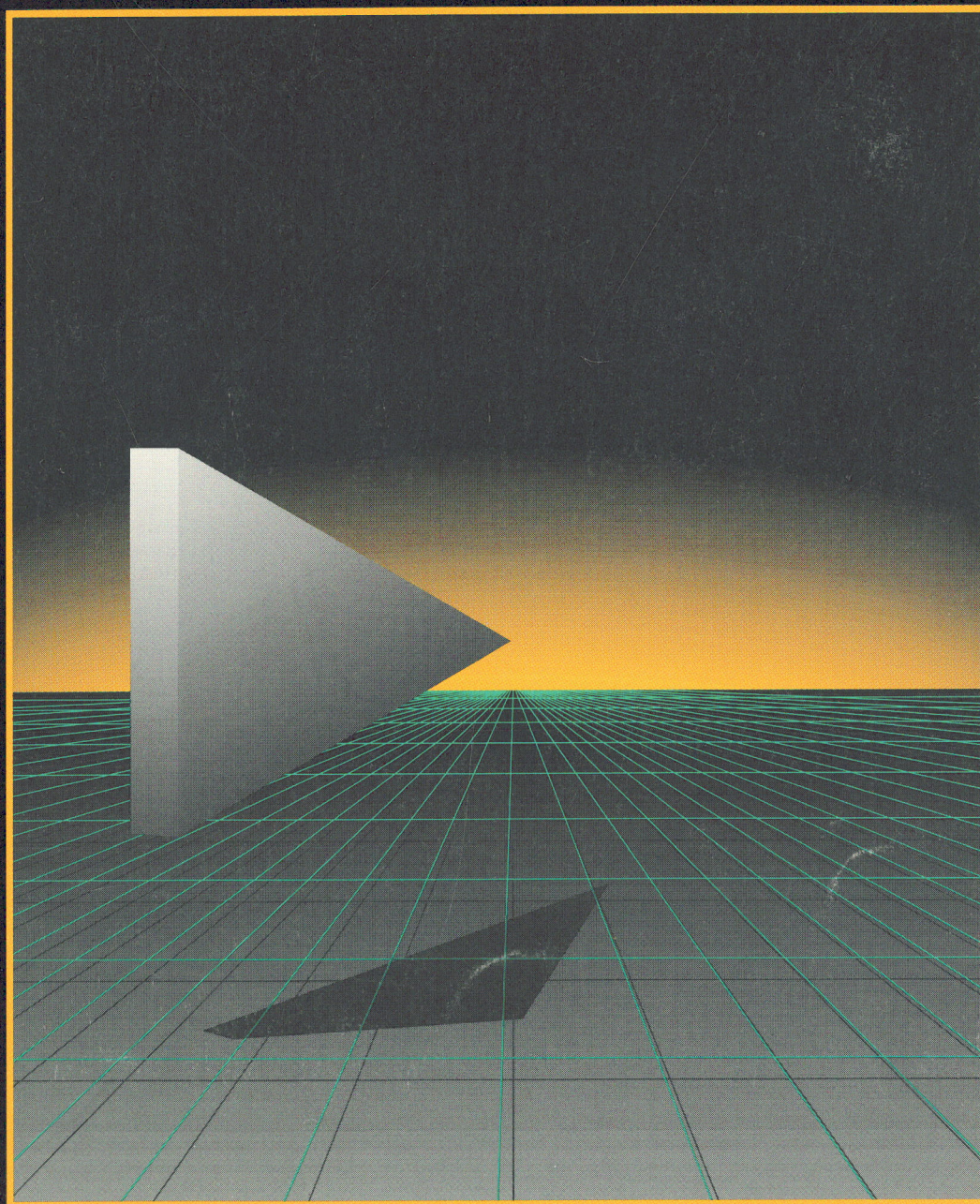


**SUPERMARKET MERCHANDISING FOR THE 1990's:
A FRAMEWORK FOR COMPETING**



**A STUDY CONDUCTED FOR THE
COCA-COLA RETAILING RESEARCH COUNCIL
BY BOOZ•ALLEN & HAMILTON INC.
MAY 1989**

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A FRAMEWORK FOR COMPETING**

May 1989

Coca-Cola Retailing Research Council

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EXECUTIVE SUMMARY

This report is designed to help the individual supermarket operator respond to the forces at work in his or her trading area. It begins by offering some guidelines for successful merchandising in the 1990s, based on our analysis of the increasingly complex food retailing environment. Next, it introduces a new way of looking at consumers—a segmentation based on their eating, cooking and shopping needs. And finally, it presents several major opportunity areas: department- or category-level business opportunities that appear to offer significant potential for profitable growth. These merchandising innovations illustrate the kinds of dramatic change that we believe will be essential to the supermarket of the future.

The environment for supermarket retailing has changed dramatically in recent years: it is no longer business as usual. Today, the traditional grocery portion of the supermarket business is stagnant (actually declining on a per-capita basis), and specialty retailers are nibbling at the periphery of the traditional supermarket business—in some cases taking over entire categories. Changing consumer needs and buying behavior and the emergence of new retail formats will continue to challenge supermarket operators in the years ahead.

A thorough reading of this report, in conjunction with an in-depth understanding of your local consumers, the strengths and weaknesses of your competitors, and your own sources of business advantage, should enable you to develop merchandising concepts particularly well suited to your local market.

SUMMARY OF KEY FINDINGS

The environment—Our analysis of the major trends unfolding in the food retailing marketplace implies five basic success requirements for the supermarket operator of the future:

- Search out non-traditional product categories and services.
- Define your portfolio of departments in a way that allows you to dominate in several key categories.

- Rationalize the business at the category, rather than SKU, level.
- Pursue opportunities to apply emerging technology to the merchandising rather than just the operating side of the business.
- Exploit your current competitive advantages in introducing new merchandising concepts.

The consumer—We identified six distinct groups of supermarket consumers:

- **Avid Shoppers**—the active cook/shopper/bargain-seekers who have traditionally been the supermarket's core customers
- **Hurried Shoppers**—busy shoppers looking for shortcuts in shopping and cooking
- **Unfettered Shoppers**—mostly older consumers with empty nests and considerable disposable income but less need to shop carefully for food
- **Kitchen Strangers**—sophisticated, childless consumers who are more likely to rely on restaurants than supermarkets
- **Kitchen Birds**—older consumers who eat lightly and are spartan shoppers
- **Constrained Shoppers**—unsophisticated, undereducated consumers with very limited income

Major opportunity areas—The basic business requirements listed above, viewed in the context of a more detailed understanding of today's consumers, point to a number of major opportunity areas for merchandising innovation, including:

- **Category dominance**—for example, a "Specialty Pet Store," a store-within-the-store that is not only a destination within the supermarket but a reason for a special

trip. Such a concept could enable some supermarkets to dominate pet foods and accessories in some markets.

- Nutrition—for example, an “Eat Right Club,” designed as a joint venture with a local health care provider. By developing daily or weekly meal plans—and meals—for club members, the supermarket could provide groups of consumers with a convenient way to meet their diet objectives (low fat, low cholesterol, etc.).
- Convenience—for example a “Mini-Store,” a separate section of the supermarket with its own entrance and faster checkouts. Such a concept would enable supermarkets to recapture a portion of the food dollars of its customers now going to convenience stores and to attract new customers.
- Services—for example, a “Home Services Agency” that offered consumers a group of services carrying the supermarket’s name and guarantee of quality in addition to the name of the local contractor who would perform each service. Such an approach would capitalize on the booming growth in services in general and would enhance customer loyalty as well as stimulate store traffic.
- Asset optimization—for example, a “Streamlined Dry Grocery Department” that stocked a private label and a limited number of brands—perhaps only one—in selected staple grocery categories. Such an innovation would cut inventory costs, enabling the supermarket to offer lower prices, in turn generating higher inventory turns and volume.

The successful supermarket operator of the 1990s will need to develop and emphasize non-traditional products and services designed to provide maximum value to identified important groups of consumers. We believe this will be true for supermarkets because other groups of retailers have successfully taken similar steps in the face

of challenges very much like those confronting supermarkets today. Conventional department stores and mass merchandisers have found it necessary to totally transform themselves in order to meet their competitive challenge. It is likely that the supermarket of the future will be very different from today’s typical store. The process of change must start now.

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INTRODUCTION

Dynamic changes in food retailing and consumer shopping behavior are already forcing operators of the traditional supermarket to rethink how they will continue to successfully compete for the consumer's food dollar in the 1990s. The environment for supermarkets has changed radically in recent years, generally to the supermarket's disadvantage, and competition will only intensify over the next decade. Consider the following powerful forces at work:

- Consumers are reducing their reliance on the supermarket for food.
- Consumers are no longer one homogeneous group: some segments seek wide selection, others low prices, and still others convenience, with purchasing behavior often differing by product category.
- Competition is proliferating, and the lines between retail channels are blurring.
- Maturing basic grocery products are leading to further opportunities for new competitors.
- Rapidly evolving technology continues to create new ways to meet consumer needs.
- The costs of doing business the traditional way are increasing.

In order to survive and prosper in this environment, supermarket operators will need to determine what role or roles they can most effectively fill in their trading area, and then refocus their merchandising in order to accomplish this objective. This report is designed to help you identify and create the merchandising innovations that will give consumers in your local market a compelling reason to buy from you. It is presented in three chapters:

- **The Changing Supermarket Environment.** Describes the powerful forces at work that have already affected the supermarket business and will totally transform it by the end of this century. Concludes with a list of basic success requirements for future supermarket merchandising.
- **A "Needs-Based" Consumer Segmentation.** Provides a state-of-the-art segmentation of supermarket consumers based on their shopping, cooking and eating habits—rather than solely on standard demographic characteristics such as age, income and education. This segmentation is intended to provide you with a new way to view your trading area and a powerful new tool for developing specialized products and services that meet the needs of consumers critical to your future success.
- **Major Opportunity Areas for the 1990s.** Presents five significant opportunity areas for supermarket operators in the 1990s, and describes in detail a major merchandising innovation that illustrates how each opportunity might be exploited.
- **Questions To Consider.** Lists a number of merchandising and management issues supermarket operators should address if they are to be in a position to achieve their objectives and adapt quickly to changing market conditions.

I. THE CHANGING SUPERMARKET ENVIRONMENT

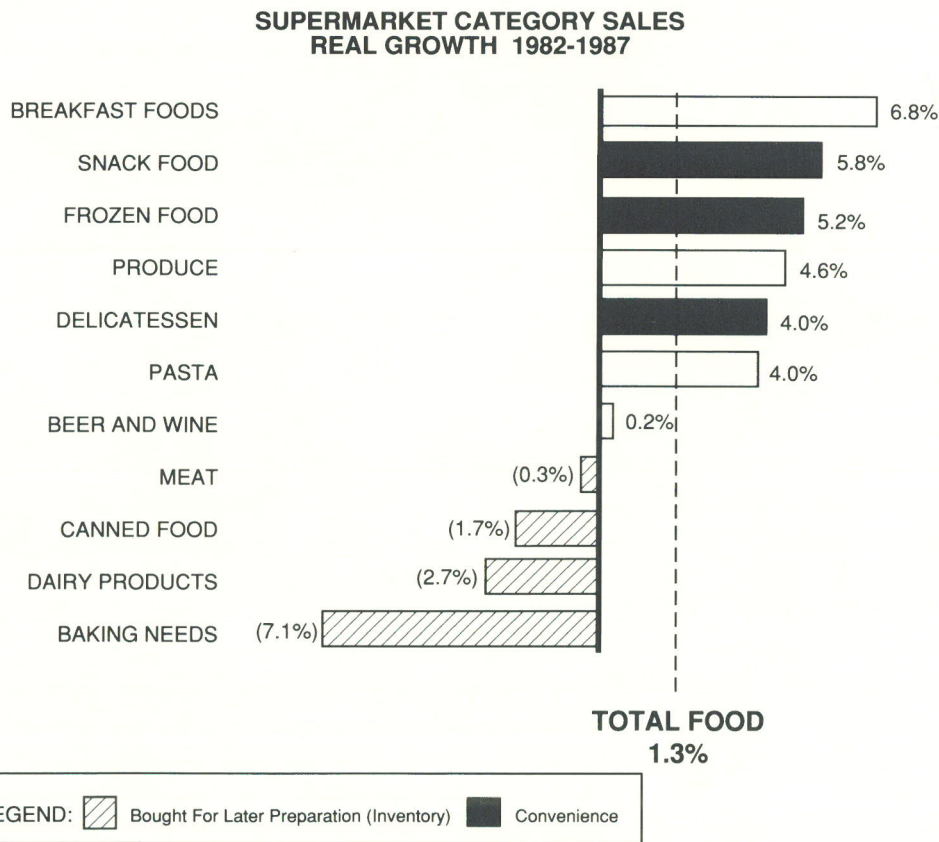
The environment for food retailing has undergone radical change in the past decade. Consumers purchase food differently today, basic product categories have matured, and supermarkets find themselves competing directly with non-traditional retail formats—such as wholesale clubs—that often have distinct business advantages. Traditional lines between retail channels have broken down, and the competitive environment will only become more complex in the 1990s.

This chapter reviews the major trends that are transforming the environment for supermarkets. Broader changes in the American retailing scene with implications for the supermarket operator are discussed as well. For example, the challenges that traditional department stores and mass merchandisers faced in the 1970s and early '80s were very similar to the forces affecting supermarkets today, and the steps these other retailers took to respond to their changing competitive environment often made the difference between longer term prosperity and Chapter 11.

CONSUMERS HAVE REDUCED THEIR RELIANCE ON SUPERMARKETS FOR FOOD AS THEIR COOKING AND EATING HABITS HAVE CHANGED

The kinds of items consumers buy at the supermarket have changed significantly in recent years, and these changes can be expected to continue. Less and less frequently are shopping trips made to restock the pantry: sales of food bought for later preparation—"inventory" foods—are actually declining. Over the 1982-87 period, real sales of such inventory foods as baking products declined 7%, while canned goods fell by 2%, (see Exhibit 1). Sales of traditional grocery products, which still represent the overwhelming majority of total supermarket sales, grew by only 1% per year over the same period, and declined on a per-capita basis.

EXHIBIT 1



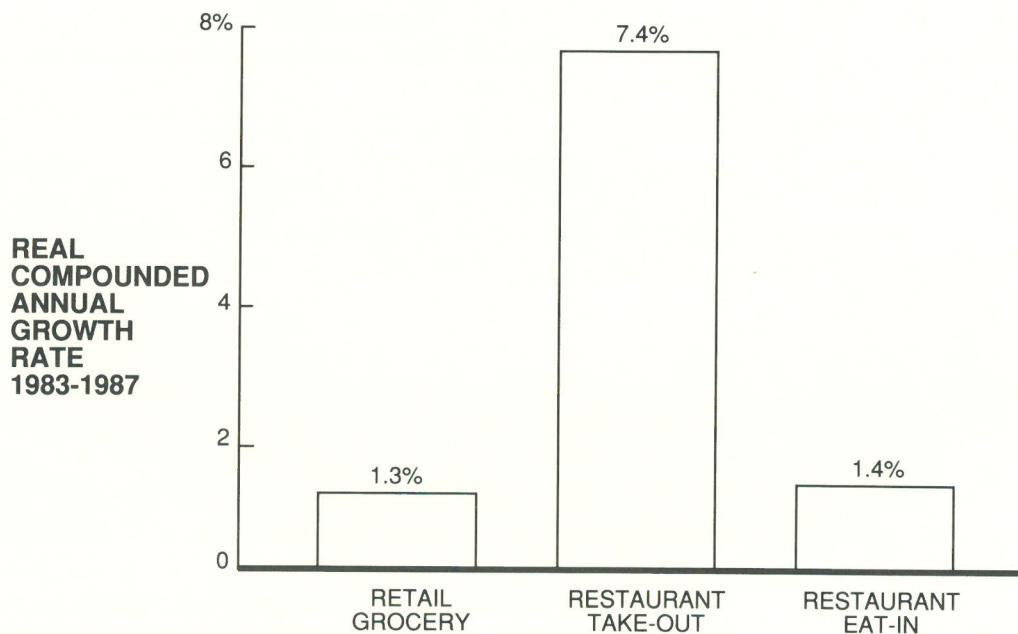
Significant demographic shifts, including a sharp rise in the number of dual-income households and a significant decline in the number of leisure hours (from 26 hours per week in 1973 to 14 in 1986), mean that more consumers are seeking quick and easy meals prepared at home or away from home. With consumers having more money than time, sales of convenience food products have grown: snack foods are up 6% in real terms and delicatessen items 4% in the last five years. The increasing penetration of microwave ovens, which are now owned by two out of three American households, has made both cooking and reheating easier.

Eating at home is no longer equivalent to cooking at home. Takeout food from restaurants has grown over five times faster than either grocery sales or in-restaurant meals (Exhibit 2). Consumers overwhelmingly cite convenience as the main reason for ordering takeout—whether they call it avoiding cooking (60%), saving time (39%), being too tired to cook (39%), avoiding cleanup (38%), or coming home late (38%).

With the increase in food prepared away from home, real per capita spending on food prepared at home declined 16% from 1981 to 1986. In other words, the core business of the traditional supermarket is shrinking. Not surprisingly, non-traditional products and services, such as general merchandise and service deli departments, have supplied over one-third of supermarkets' growth in sales and profitability since 1983, despite the fact that these categories account for only one-seventh of total volume. Thus, future moves into new products and services will be a continuation of a trend that has already been established.

EXHIBIT 2

FOOD SALES GROWTH BY OUTLET



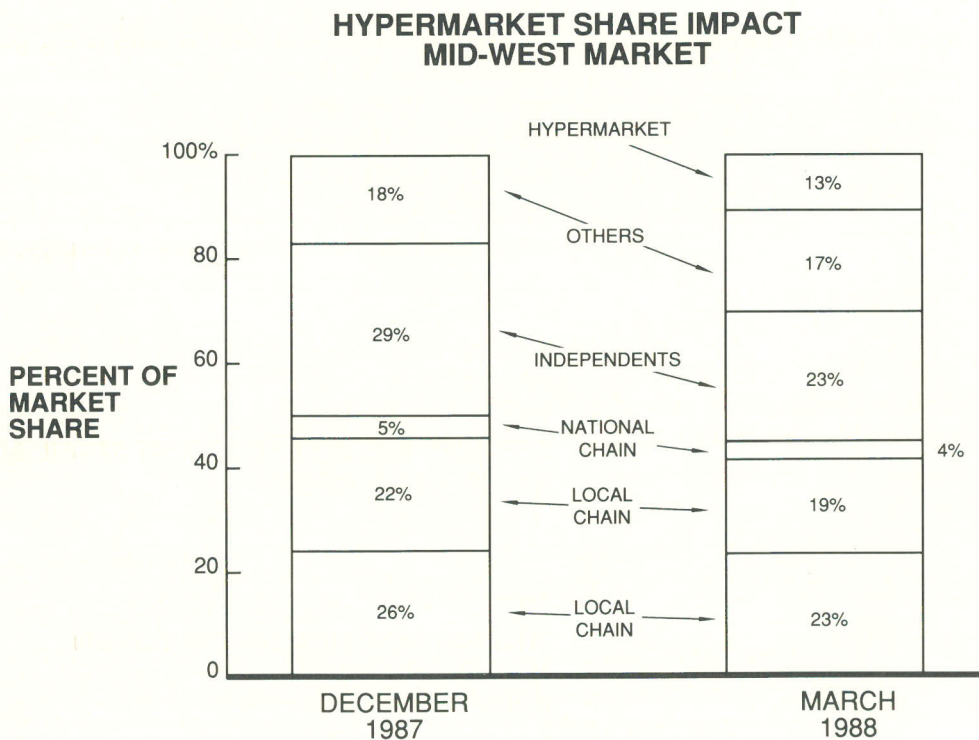
COMPETITION IS INTENSIFYING AS THE LINES BETWEEN DISTRIBUTION CHANNELS BLUR

Supermarkets now compete head-on with fast food chains and restaurant carry-out for the consumer's food dollar. Today's consumers can pick up a meal at a fast food outlet or their favorite Chinese restaurant; they can also substitute prepared food purchased at their supermarket for buying and cooking raw ingredients. Food can be purchased from a wider variety of retailers than ever before: breakfast from McDonald's, snack food from K Mart, milk from Walgreen's, dinner from Bloomingdale's, to name just a few.

Although non-traditional products and services are becoming more and more important to supermarkets, as supermarkets move into new categories they find themselves in direct competition with entirely different sets of retailers. And when these competitors enjoy a clear business system advantage—such as less expensive real estate, significantly lower inventory and/or labor costs, or better marketing—supermarkets may find profitability elusive.

New competitive formats in many instances are forcing supermarkets to rethink their approaches to local markets. The potential impact of a new competitor can be illustrated by the opening of a hypermarket in a midwest city. Three months after opening, the hypermarket had acquired a 13% share of total supermarket volume in that market (Exhibit 3).

EXHIBIT 3



**ESTIMATED IMPACT OF 1/2% SHARE
LOSS IN THIS MARKET ON ONE SUPERMARKET**

	BEFORE	AFTER
REVENUE	100.0%	85.0%
COGS	75.4%	64.1
GROSS MARGINS	24.6	20.9
OPERATING EXPENSE	23.2	21.1
OPERATING MARGINS	1.4	(0.2)

This share gain was mostly at the expense of chain supermarkets, on the order of 16% of volume for the typical supermarket in that trading area. This share loss turns an average store with a 1.4% operating margin into a store operating below breakeven (Exhibit 4).

THE MATURING OF PRODUCT CATEGORIES IS SIMULTANEOUSLY SPAWNING NEW RETAIL FORMATS AND HAVING A NEGATIVE IMPACT ON SUPERMARKET CUSTOMER LOYALTY

As products mature and achieve wider and wider distribution, their easier availability makes specific branded items less of a factor in store loyalty. Although branded products still predominate as an assurance of quality, specific brand names in some categories have become less potent since customers have learned from experience that real differences among brands within a relevant set are not substantial. For example, today's consumers may be more concerned about the form—e.g., powder vs. liquid laundry detergent—than the brand within a set of acceptable brands.

As a result, consumers are able to find branded products at almost any store, and are willing to forgo buying their usual brand for the

opportunity to save on price. (The rise of discount drugstores is clear proof of this willingness.) Wholesale clubs have also demonstrated that consumers will buy in bulk or accept even more limited variety for significant cost savings.

While brands still offer a vehicle for generating store traffic, their increasing interchangeability means that supermarkets must find new, unique ways to add value in order to compete effectively. Stimulating customer loyalty may require offering unique services or items that shoppers cannot easily compare to others stores' offerings, like in-store bakeries or deli counters.

TODAY'S CONSUMERS ACT IN AN APPARENTLY PARADOXICAL WAY: THEY ARE WILLING TO PAY A PREMIUM FOR CERTAIN PRODUCTS AND SERVICES BUT SEEK LOW-COST RETAIL ALTERNATIVES FOR OTHERS

Retail polarization appears to be upon us. The fastest growing retail segments today either offer service to attract customers (a la Nordstrom's and other similar specialty stores) or low prices (such as wholesale clubs, and power merchants like Circuit City). And a higher

percentage of consumers' disposable dollars are being spent on services than ever before. Clearly, many consumers are willing to pay for variety and choice in certain categories that are important to them—particularly for new or unfamiliar products or services, or for products or services presented in a unique way.

At the same time, though, when consumers know exactly what they are buying—when they are purchasing familiar products—they are increasingly looking for low-cost alternatives or for extra convenience in making their purchases. The same consumer may have entirely different priorities depending on the product category: he or she may be perfectly satisfied with inexpensive generic paper goods but be willing to pay a premium for top-quality prepared food.

Presented with a larger number of retailing alternatives, today's more sophisticated and less loyal consumers are viewing their local supermarket in an unbundled way: they may think of their supermarket as a source of produce and canned goods, for example, but not of takeout food or general merchandise. As the number of retail competitors in each category of goods increases, supermarket purchasing decisions will become even more unbundled.

CHANGES IN CONSUMER BEHAVIOR, IN CONJUNCTION WITH CHANGES IN THE ECONOMICS OF FOOD RETAILING, HAVE LED TO FURTHER OPPORTUNITIES FOR NEW FORMATS

The ability of new retail formats to exploit various components of the cost structure to meet the evolving needs of a changing consumer base has fundamentally transformed retailing in the United States.

Hypermarkets, for example, are taking advantage of less costly fringe real estate and high volume to offer the convenience of one-stop shopping at discount prices across all categories, including food. In some markets they are capturing the major family shopping expeditions of price-sensitive consumers in the markets in which they have opened, often leaving supermarkets to play a fill-in role.

Wholesale clubs are targeting the consumer interested in low prices by offering less selection. By carrying only one choice in a given category, they are able to cut their cost of carrying inventory—and their prices—so greatly that they can get the shopper to buy the brand they stock. Reducing display expenses and service on the floor further reduces overhead costs and allows them to reduce prices and increase profitability.

Department stores and mass merchandisers have faced the same kinds of challenges, and their responses offer some lessons for supermarket retailing today. The rise of the regional shopping mall, for example, allowed the proliferation of specialty stores, which could rely on the anchor department stores to generate customer traffic and, as a result, not have to spend as much money on advertising. These stores were able to target specific consumer needs segmented by price, occasion or fashion, and siphon business away from department stores. The more successful examples, such as The Limited Corporation, were able to expand their customer base and product range over time by developing a portfolio of specialty retail formats that responded to the needs of emerging consumer segments.

Many mass merchandisers and department stores were unable to adequately respond to dynamic marketplace changes and disappeared from the retail scene. Others, however, took radical steps that enabled them to survive and even prosper.

For example, Montgomery Ward, which held outmoded real estate in many markets and found itself caught in the middle between department stores and power merchants, decided to compete with specialty stores by becoming several specialty stores itself. The company sharply edited SKUs in categories such as housewares, notions and gifts, and aggressively reorganized around five freestanding specialty stores under one roof:

- Auto Express (auto service)
- The Apparel Store (clothing)

- Home Ideas (home furnishings)
- Electric Avenue (appliances and electronics)
- Gold N Gems (jewelry)

Unutilized space was rented to specialty retailers such as Toys 'R' Us.

Each specialty concept was created to attract consumers back to Ward's in those categories in which they believed they could compete. Stores and organizational structures were recut into distinct vertical businesses around each concept so that each specialty area could respond more quickly and effectively to changing competitive conditions.

The development of these "stores-within-the-store" and their vertically cut organizations were further recognition that each major product category has a different competitive set from which to attract consumers and that the same consumer may not be a customer for all major categories.

RAPIDLY CHANGING TECHNOLOGY WILL CONTINUE TO INFLUENCE THE WAY RETAIL FORMATS EVOLVE

New technologies (beyond scanning and retail automation) will continue to offer new ways to merchandise and to meet consumer needs, thus generating still more new retail formats. For example, until recently eyeglasses could only be purchased from opticians and could take up to a week to make. But the development of the optical grinding equivalent of a steel minimill now enables glasses to be made in an hour on a much smaller piece of equipment. This new technology has made possible eyeglass/eye care shops on every corner, opening the field to an entirely new retail format.

New technology has also enabled supermarkets to offer high-quality fresh baked goods without making a major investment in skilled labor. In the last several years, new strains of yeast have been developed which have

improved the quality of frozen "bake-off" products. Supermarket operators who did not previously use these products due to dissatisfaction with their quality were able to offer a new category to their customers. Those that had previously used bake-off were able to expand their product line. At the same time, though, traditional bakeries have been able to use the new bake-off products to supplement their product lines.

Emerging technologies will continue to be a two-edged sword, offering new merchandising opportunities to supermarkets but at the same increasing the pace of competitive change by making new retail formats possible.

THE COSTS OF DOING BUSINESS THE TRADITIONAL WAY ARE INCREASING, IMPOSING NEW CONSTRAINTS ON CHANGE AND UNDERSCORING THE IMPORTANCE OF ASSET MAXIMIZATION

As supermarket operators attempt to use labor to add value in order to differentiate their stores from competition, they will have to accomplish this within the constraints of a shrinking labor pool and rising labor costs. The number of 16-24 year olds will decline over the next ten years, decreasing the prime labor pool for supermarkets. This unfavorable trend could lead to a labor shortfall for supermarkets of as much as 26% by the mid-1990s. Increasing competition for a smaller labor pool will drive up wages.

Labor is already nearly two-thirds of the typical supermarket's operating expenses. Labor agreements and workplace rules may also saddle supermarkets with higher costs than some of their emerging competitors, and at the same time reduce their flexibility. Maximizing the value provided by labor will continue to be a key objective for all supermarkets, and the labor implications of any new merchandising concept will be an important consideration in an assessment of its feasibility.

Similarly, occupancy costs are increasing at a faster rate than sales, and in several major metropolitan markets are now totally out of line with

their traditional percentage on the operating statement. Supermarkets in cities such as Boston and New York are feeling the combined pinch of rising labor and occupancy costs.

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The same kinds of structural change that eroded the dominance of the traditionally powerful department stores now threaten the supermarket. Traditionally, supermarkets have owned the vast middle part of the food market. But the department stores and mass merchandisers similarly had a dominant position in both hard and soft goods until they watched piece after piece of their business slip away to more specialized and/or economically advantaged competitors.

Today, the core supermarket business is stagnant, and specialty stores targeting specific needs of identified consumer groups are nibbling at the periphery of the traditional supermarket business—in some instances taking over entire categories. Just as the department stores lost category after category of their traditional business (appliances, toys, books, carpets, furniture, housewares) to more advantaged and more focused competitors, today's supermarket faces intense competition at the department, or category, level.

What are the implications for supermarket merchandising of the major trends unfolding in the food retailing marketplace?

We see five basic success requirements for the supermarket operator of the future:

- Search out non-traditional product categories and services. The core supermarket business is eroding, and new business lines are needed to replace shrinking sales volume and profitability.
- Define your portfolio of departments in a way that allows you to dominate in

several key categories. Domination may be achieved by providing exceptional variety, quality, pricing, or service that offers substantial value to your customer base.

- Rationalize the business at the category, rather than SKU, level. Local competitors with clear structural advantages may require you to significantly reduce your presence in some categories or exit them entirely.
- Pursue opportunities to apply emerging technology to the merchandising rather than just the operating side of the business. With new technologies simultaneously spawning new competitors and rendering existing retail formats obsolete, today's supermarket operator must actively search for opportunities to use technology to develop new products and services, or improve their delivery.
- Exploit your current competitive advantages, such as convenient location and high customer traffic, in introducing new merchandising concepts. Building off existing strengths should enable you to stimulate cross-shopping among current customers as well as draw new consumers into the store.

The next chapter presents a segmentation of supermarket consumers based on their eating, cooking and shopping needs. Tailoring this segmentation to your local trading area will enable you to meet the first success requirement outlined above.

The final chapter of this report offers a number of major merchandising innovations that respond to—and capitalize on—the changing food retailing environment and what can be expected to appeal to major consumer segments.

II. A "NEEDS-BASED" CONSUMER SEGMENTATION

Clearly, the challenge facing the supermarket operator will be to profitably attract more customers and dollars to your stores, within the constraints of tomorrow's more demanding and more complicated food retailing environment. This will require you to create compelling reasons for consumers in your local trading area to shop at your stores.

The key to this effort is a thorough grasp of just who your current and potential customers are. Armed with this knowledge, you will be in a position to meet—and even anticipate—the needs of the various consumer groups that comprise your local population.

Consumers can be grouped according to a number of dimensions. Psychographics have been used, for example, to guide advertising executions. A skilled advertiser can develop ad copy to reach a particular psychographic segment (say, risk-takers) because the targeted prospects in theory will "self-select"—that is, those kinds of individuals to whom the message is designed to appeal will respond to it while others won't. But psychographics are of limited use in direct selling because this approach cannot be used to identify the man or woman on the street, and gives little insight into buying behavior by category.

Consumers can also be segmented on the basis of demographic variables such as sex, age, or income. But demographic data does not provide sufficient insight into human behavior. People of the same income group, for example, do not necessarily behave the same way; nor do people of the same income and age group.

A particularly insightful approach to market segmentation is based on user needs and attitudes toward the specific product category under study. A "needs segment" is a group of people who share a desire for a particular benefit from a product or service. The individuals grouped in a needs segment for a given product category may be entirely different from one another in their desires and buying behavior for other kinds of products.

For the supermarket, the most revealing means of grouping consumers is by their eating, cooking and shopping needs and attitudes. Shopping needs alone do not explain the drivers of supermarket usage because shopping needs are largely a function of eating and cooking habits. Nor do standard demographic characteristics such as age, income, and education, because experience has shown that they provide only limited insight into purchasing behavior.

Our research enabled us to develop six distinct groups of supermarket customers based on their eating, cooking and shopping needs and behavior:

- Avid Shoppers—the active cook/shopper/bargain-seekers who have traditionally been the supermarket's core customers
- Hurried Shoppers—busy shoppers looking for shortcuts in shopping and cooking
- Unfettered Shoppers—mostly older consumers with empty nests and considerable disposable income but less need to shop carefully for food
- Kitchen Strangers—sophisticated, childless consumers who are more likely to rely on restaurants than supermarkets
- Kitchen Birds—older consumers who eat lightly and are spartan shoppers
- Constrained Shoppers—unsophisticated, undereducated consumers with very limited income

Each of these segments includes consumers along a spectrum of incomes, ages, marital status, family size and other demographic characteristics (Exhibit 5). Each segment's actual size in 1985 and projected size in the year 2000 is shown in Exhibit 6. Exhibit 7 displays a breakdown of year 2000 spending by segment in three major supermarket categories—food prepared away from home, food prepared at home, and non-food consumables. (The methodology used to devise this consumer segmentation is provided in Appendix A.)

EXHIBIT 5

PROJECTED CONSUMER SEGMENTS

U.S. HOUSEHOLDS																											
POOR UNDER \$10,000	WITH CHILDREN						WITHOUT CHILDREN																				
	LOWER INCOME \$10-30,000			HIGHER INCOME >\$30,000			UNDER AGE 50			AGE 50-64			AGE 65-74			AGE 75+											
	SINGLE PARENT			TWO PARENTS						MOTHER WORKS			MOTHER HOME						CHILDREN LEFT HOME			NEVER HAD CHILDREN			LOWER INCOME \$10-25,000		
	HURRIED SHOPPER			AVID SHOPPER			HURRIED SHOPPER			AVID SHOPPER			HURRIED SHOPPER			AVID SHOPPER			HURRIED SHOPPER			AVID SHOPPER			HURRIED SHOPPER		
	CONSTRAINED SHOPPER			HURRIED SHOPPER			AVID SHOPPER			HURRIED SHOPPER			AVID SHOPPER			HURRIED SHOPPER			AVID SHOPPER			HURRIED SHOPPER			AVID SHOPPER		
				MOTHER HOME			WIFE HOME			WIFE WORKING OR SINGLE			CHILDREN LEFT HOME			NEVER HAD CHILDREN			LOWER INCOME \$10-25,000			HIGH INCOME >\$25,000					
				MOTHER HOME			WIFE HOME			WIFE WORKING OR SINGLE			CHILDREN LEFT HOME			NEVER HAD CHILDREN			LOWER INCOME \$10-25,000			HIGH INCOME >\$25,000					
				MOTHER HOME			WIFE HOME			WIFE WORKING OR SINGLE			CHILDREN LEFT HOME			NEVER HAD CHILDREN			LOWER INCOME \$10-25,000			HIGH INCOME >\$25,000					
				MOTHER HOME			WIFE HOME			WIFE WORKING OR SINGLE			CHILDREN LEFT HOME			NEVER HAD CHILDREN			LOWER INCOME \$10-25,000			HIGH INCOME >\$25,000					
				MOTHER HOME			WIFE HOME			WIFE WORKING OR SINGLE			CHILDREN LEFT HOME			NEVER HAD CHILDREN			LOWER INCOME \$10-25,000			HIGH INCOME >\$25,000					

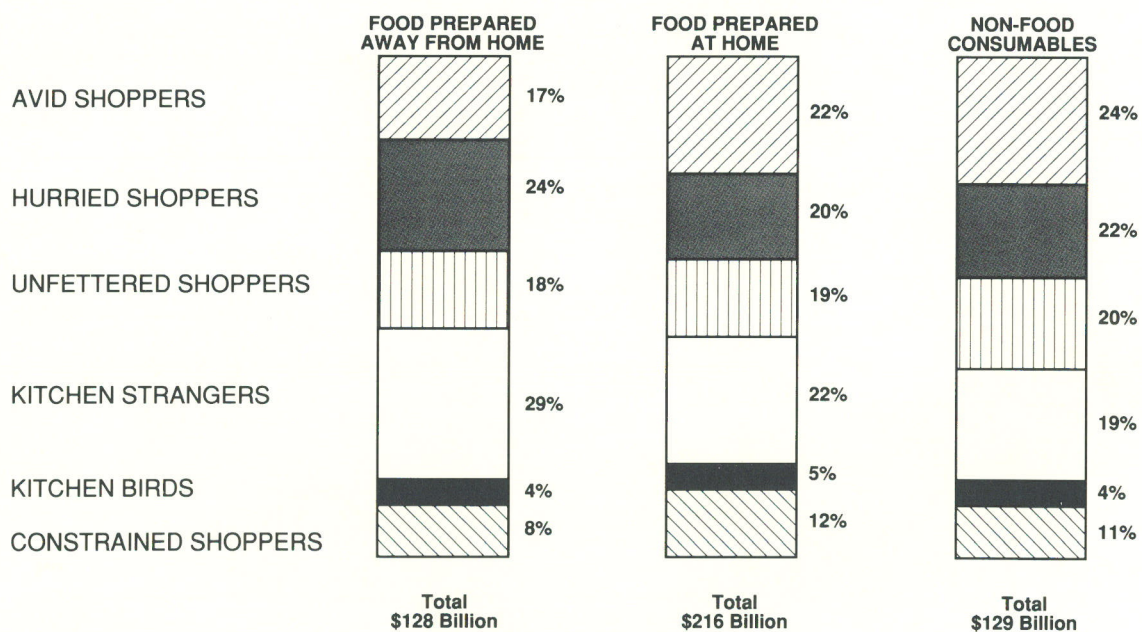
EXHIBIT 6

**HOUSEHOLD PROJECTION
CONSUMER SEGMENTATION**

SEGMENT	MILLION HOUSEHOLDS		
	1985	2000	% CHANGE
AVID SHOPPERS	22.6	21.0	(7%)
HURRIED SHOPPERS	14.8	16.0	+8%
UNFETTERED SHOPPERS	11.0	17.1	+55%
KITCHEN STRANGERS	17.1	22.6	+32%
KITCHEN BIRDS	4.8	7.6	+58%
CONSTRAINED SHOPPERS	16.4	20.5	+25%
TOTAL	86.7	104.8	+21%

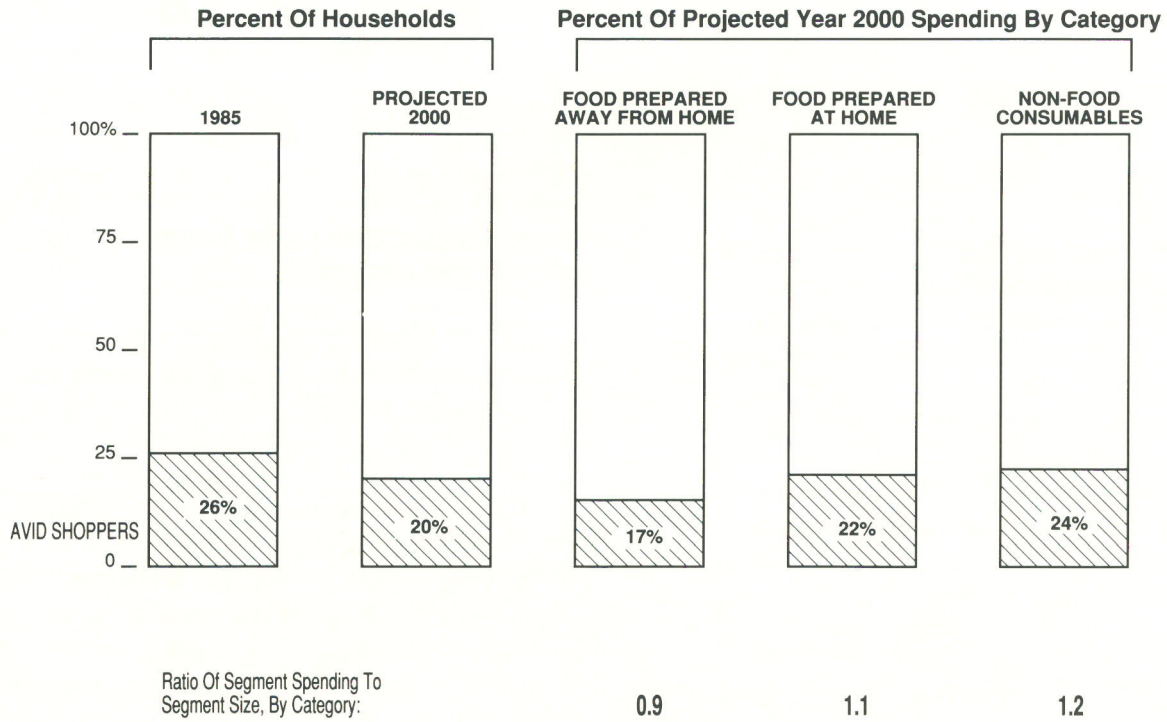
EXHIBIT 7

**PROJECTED SPENDING
CONSUMER SEGMENTS**



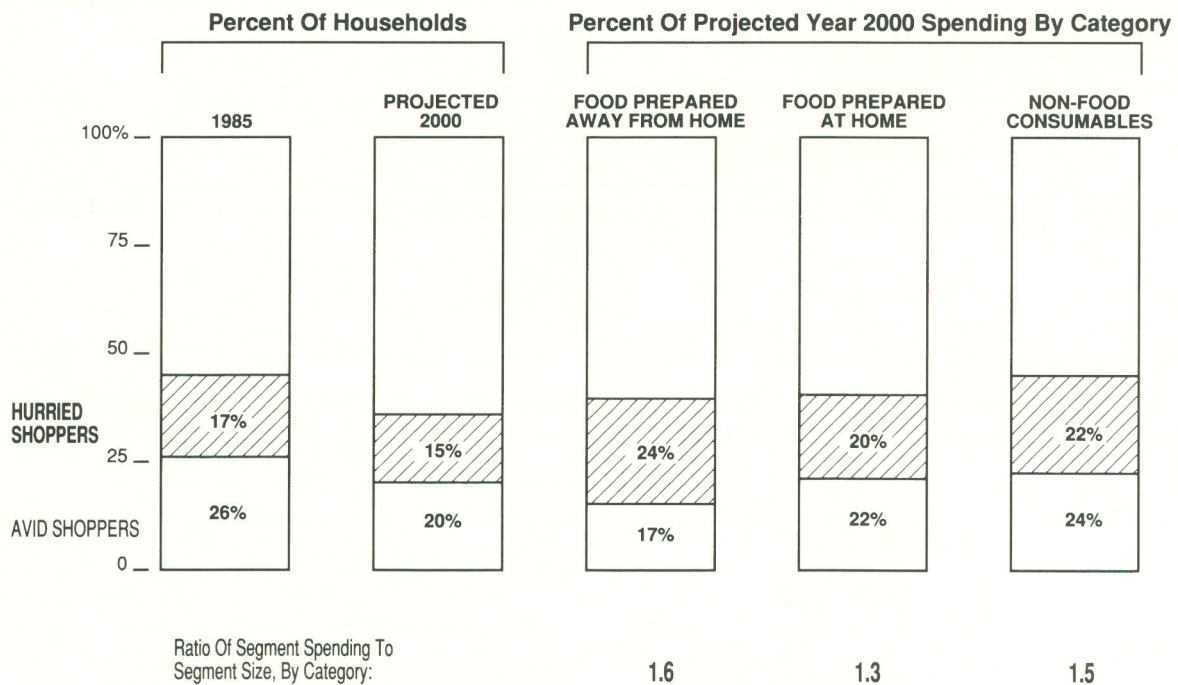
AVID SHOPPERS

EXHIBIT 8



HURRIED SHOPPERS

EXHIBIT 9



Each identified needs segment is briefly profiled on the following pages.

THE AVID SHOPPER IS THE TRADITIONAL SHOPPER

Avid Shoppers are the supermarket's traditional customer base. They invest energy in shopping and cooking either because of their lifestyles or due to constrained budgets. This segment includes moderate-income families where Mom stays home with the children, adults raised during the Great Depression, and lower-income households with children.

Cooking dinner is a way of life for Avid Shoppers. They cook dinner nearly every day, eating out only on special occasions. Takeout food provides an occasional break in the weekly routine.

Shopping is an important event in the Avid Shopper's day. They shop more frequently than other consumers, and spend more time per shopping trip. Because their budgets are typically constrained, most look for specials in food and non-food products, and shop at different supermarkets based on price. Avid Shoppers spend most of their food budget at the supermarket, and also purchase a disproportionately high percentage of non-food discretionary items such as housewares and greeting cards, there.

Currently, there are 23 million Avid Shopper households (26% of the U.S.), but this segment will shrink to 21 million (20%) by the year 2000. The Avid Shoppers will represent a disproportionately small share of food prepared away from home dollars (17%) but a higher share of non-food consumable dollars (24%) and a slightly higher share of food prepared at home dollars (22%). (See Exhibit 8.) In all, Avid Shoppers will spend a total of \$102 billion on the three categories, down slightly from \$106 billion today (constant dollars).

HURRIED SHOPPERS ARE IN A RUSH TO GET DINNER ON THE TABLE

Like the Avid Shopper, the Hurried Shopper eats dinner at home, in this case because of children in the family. However, householders in this segment are too busy to be traditional homemakers, and thus look for shortcuts in shopping and cooking.

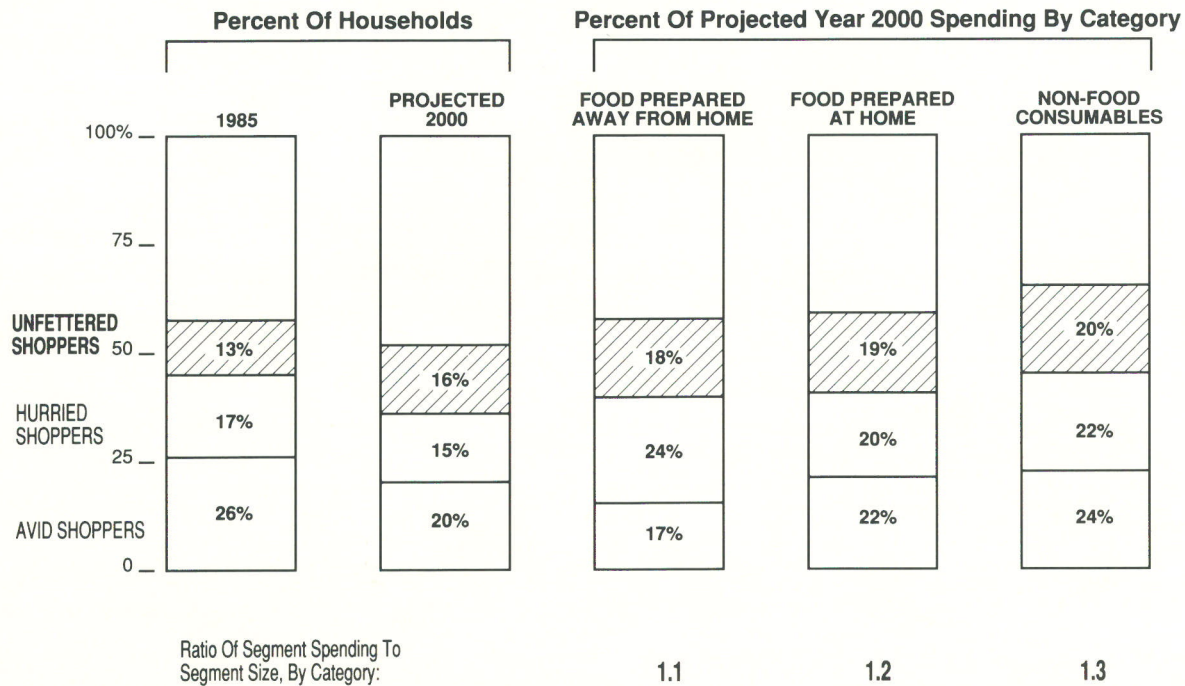
Hurried Shoppers are mostly working mothers with moderate incomes, along with some very affluent mothers who are busy with social and community activities.

These mothers consider a healthful family dinner desirable but dislike cooking and lack the time during the day to prepare meals regularly. Eating out is difficult and expensive because these households include children. Hurried Shoppers compensate by buying takeout food, in addition to getting other members of the family to pitch in. In the rush to get dinner on the table, the concern for a healthy meal is often brushed aside in favor of an easy one. Perhaps no segment has a greater need for high-quality takeout food than the Hurried Shopper households.

Today, there are 15 million Hurried Shopper households (17% of the U.S.); this segment will grow more slowly than the overall population during the 1990s, reaching 16 million (15%) by the year 2000 (Exhibit 9). However, Hurried Shoppers will represent a disproportionately large share of spending in all categories: food prepared away from home (24%), food prepared at home (20%), and non-food consumables (22%). Total spending by this segment will increase to \$102 billion in the year 2000 from \$94 billion today.

UNFETTERED SHOPPERS

EXHIBIT 10



UNFETTERED SHOPPERS ARE THE FASTEST GROWING CONSUMER SEGMENT BUT SHOP LESS CAREFULLY THAN IN THE PAST

Unfettered Shoppers have recently relaxed their shopping and cooking routines, although food content is increasingly important to this segment. These are householders in their fifties and sixties whose children have grown up and left home. Many are still working, and they are enjoying more disposable income with their newly downsized families.

Dinner is less complicated now than when the children were home. Unfettered Shoppers eat out and take out more often than they used to. They cook more simply than when they felt obligated to put a complete meal on the table and stretch their food dollars, too.

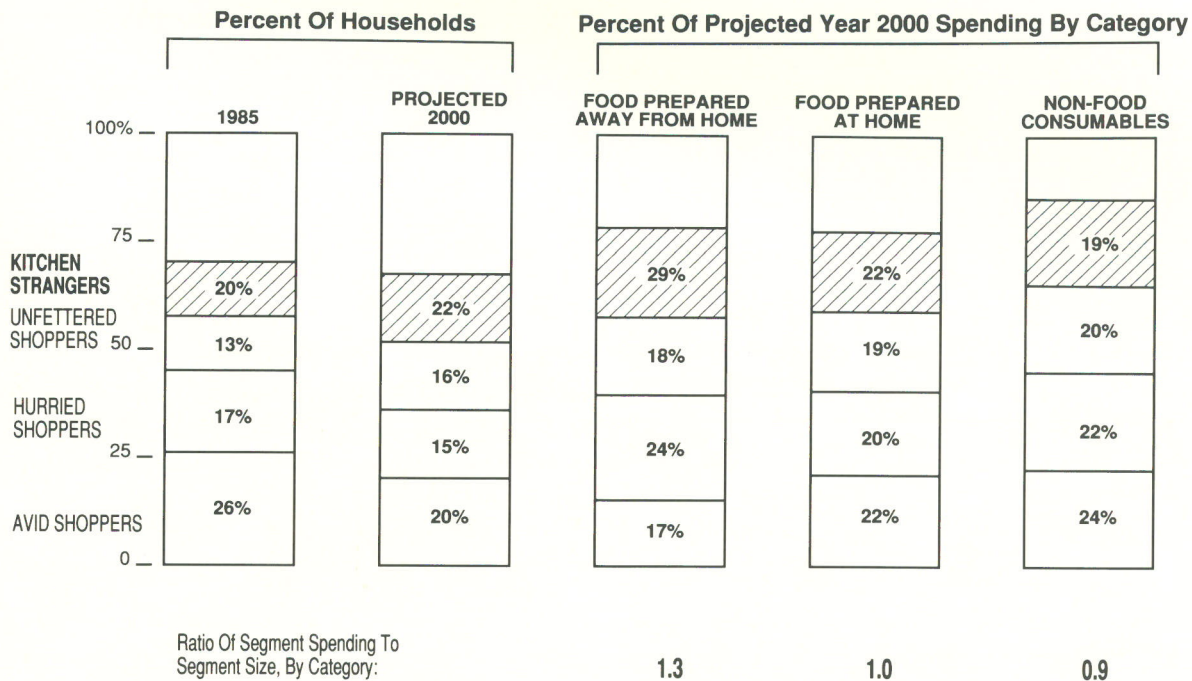
Shopping is less important to these consumers than it used to be, but it is still part of the routine. With fewer mouths to feed, Unfettered Shoppers have less need to shop carefully. And these women are tired of shopping after 20+ years of running the house. Their time is occupied with work or personal activities for their own fulfillment.

Unfettered Shoppers are increasingly conscious of their health and what they eat. Many are watching their cholesterol levels, their salt intake or their weight. Some avoid food additives such as MSG or look for food with high fiber content.

Currently, there are 11 million Unfettered Shopper households (13% of the U.S.), and by the year 2000 this segment will expand significantly to 17 million (16%). Spending by Unfettered Shoppers will be disproportionately high in all three categories, and total spending will grow rapidly from \$57 billion today to \$89 billion by the year 2000 (Exhibit 10). Appendix A includes a detailed explanation of the projection methodology, using an example from the Unfettered Shoppers segment.

KITCHEN STRANGERS

EXHIBIT 11



KITCHEN STRANGERS RELY ON RESTAURANTS, NOT SUPERMARKETS

Kitchen Strangers are in a position to disregard the demands of shopping and cooking. These are households without children: some married, some single and some divorced.

For the Kitchen Stranger, cooking is an inconvenience, with taking out or eating out serving as easy substitutes. The Kitchen Stranger rarely cooks dinner, eating out for breakfast, lunch or dinner—sometimes all three. They are sophisticated consumers, frequenting ethnic and fast food restaurants and, more rarely, supermarkets for their takeout food.

Shopping is a low-priority chore for Kitchen Strangers. Because stocking the cupboard or the refrigerator is not essential for eating, convenience stores can meet many of their immediate needs.

However, this segment represents significant potential for supermarkets, not only because the number of Kitchen Stranger households is growing faster than the overall population but because the dollars these consumers spend in

supermarkets tend to be on higher-margin items such as frozen and prepared foods. Kitchen Strangers are also less likely than the average consumer to be comparison shoppers or to use coupons.

There are currently 17 million Kitchen Stranger households (20% of the U.S.); this segment will expand to 23 million (22%) by the year 2000. Kitchen Strangers will spend a disproportionately high 29% of the food prepared away from home dollars (ranking them number one in this category), a proportionate amount on food prepared at home (22%), and a slightly lower share of non-food consumable dollars (19%). Their total spending will increase from \$82 billion today to \$109 billion in the year 2000, ranking them number one in spending (Exhibit 11).

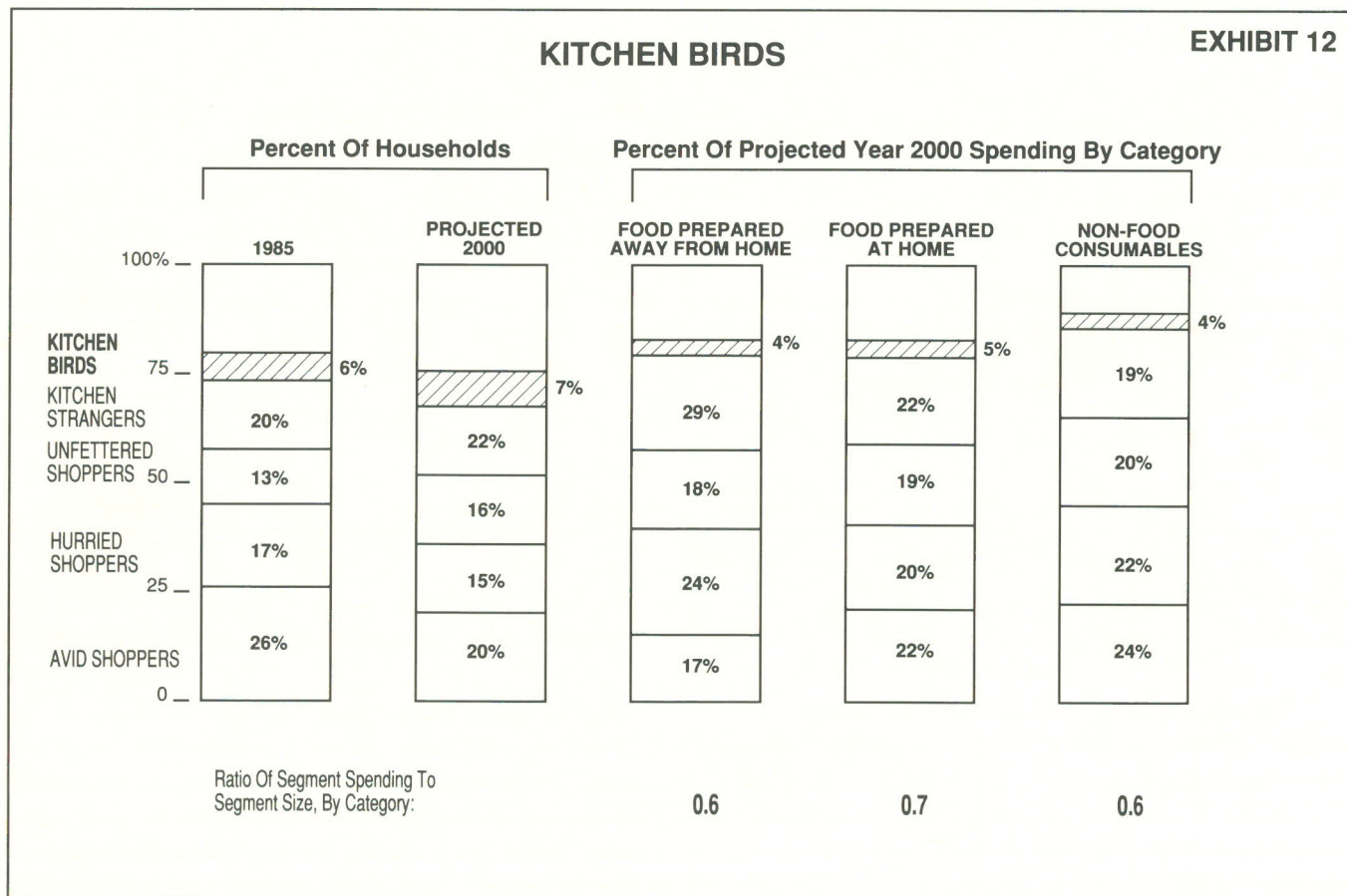
KITCHEN BIRDS ARE SPARTAN SHOPPERS

Like Kitchen Strangers, Kitchen Birds shop and cook very little, but they do not compensate by eating out. This segment consists of very old householders, including many widowed women and people living alone. Cooking is a lot of trouble, so Kitchen Birds tend to eat lightly.

Shopping is a major undertaking for this segment. Kitchen Birds are impeded by the problems of aging, of bad weather and of transportation. They need help carrying groceries. This is a segment that seeks out supermarkets with pharmacies and delivery services.

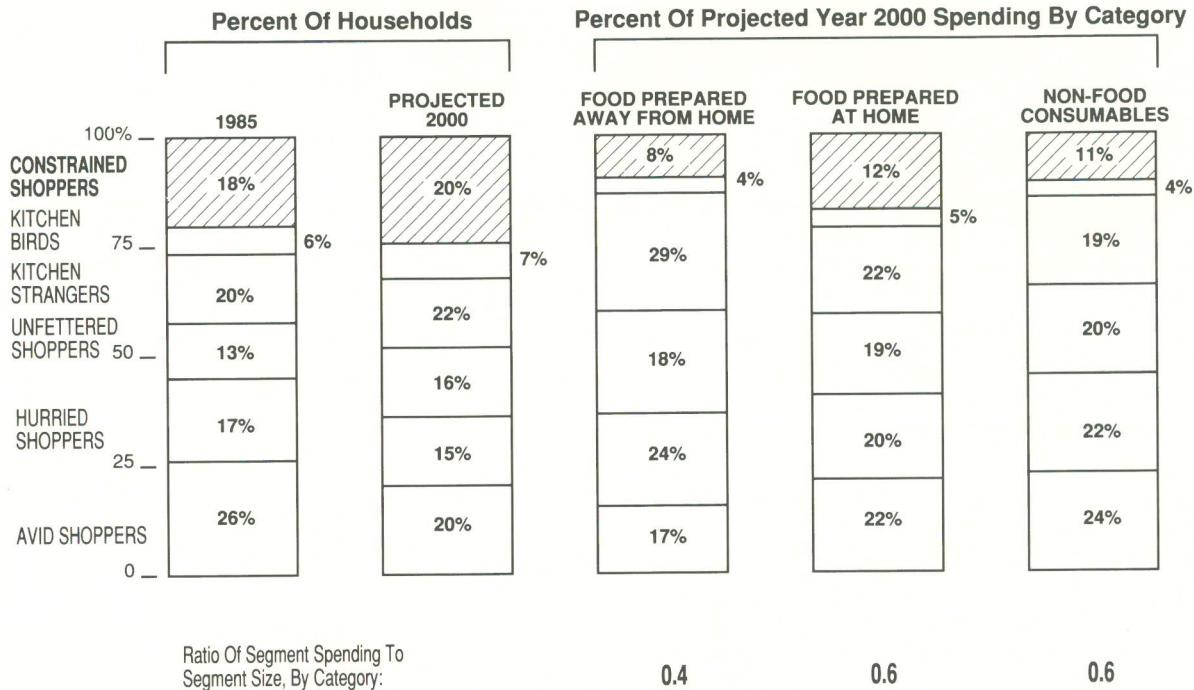
Currently, there are less than 5 million Kitchen Bird households (6% of the U.S.), but by the year 2000 this segment will grow to almost 8 million (7%). Not surprisingly, however, their spending will continue to be disproportionately low in all categories. Total spending will rise

rapidly on a percentage basis but will be only \$20 billion by the year 2000, compared to \$12 billion today (Exhibit 12).



CONSTRAINED SHOPPERS

EXHIBIT 13



CONSTRAINED SHOPPERS ARE LIMITED BY LACK OF MONEY, LACK OF TRANSPORTATION AND LACK OF EDUCATION

Constrained Shoppers typically shop irregularly at the closest supermarket, economizing by the timing of their shopping trips and by using food stamps. They often must walk to and from the supermarket, and they buy very little non-food merchandise there, with the exception of beer and cigarettes. They eat out very sparingly, seldom visiting—or buying takeout food from—restaurants or fast food outlets.

A disproportionately high percentage of Constrained Shoppers are single women, either very young or very old, and these consumers tend to be poorly educated. They rarely make use of coupons, and they show relatively little concern about nutrition, cholesterol and other dietary issues.

There are currently 16 million Constrained Shopper households (18% of the U.S.), and this segment will grow to nearly 21 million (20%) by the year 2000. Not surprisingly, they will account for a disproportionately very small share of spending in all three categories (Exhibit 13).

Their total spending will increase from \$41 billion today to \$51 billion in the year 2000.

‡ ‡ ‡ ‡

Which of these six segments do you want to target for your supermarket? The answer to this question will depend on a number of factors, including the size of each segment in your trading area, the likely growth rate of each group, and the level of local competition for the spending dollars of each segment.

Each segment may be attractive for different reasons. For example, Avid Shoppers are certainly attractive based on volume—this segment spends a lot on food and non-food consumables. Kitchen Strangers spend about the same amount for food prepared at home but may be even more attractive because they are less likely to shop promotions or use coupons, and they buy higher-margin frozen and prepared foods. Hurried Shoppers spend a disproportionately high amount on higher-margin non-food items, and, given their heavy use of restaurants, could be attracted to the supermarket with more or better prepared foods.

The smaller segments may also offer benefits to certain supermarket operators in some markets. For example, the frequently overlooked Unfettered Shoppers are expected to undergo the largest growth in number of households, and spending by this segment is disproportionately high in both food and non-food consumables. Constrained Shoppers buy items that are highly profitable for supermarkets (such as beer, cigarettes and snack foods) and they are not promotion-oriented, making them an opportunity for smaller, urban supermarkets.

Concepts that appeal to multiple segments—and, after all, a supermarket serves a trading area, not a single segment—will have the best prospects for making a significant positive impact on the bottom line. For example, prepared food will be attractive to Hurried Shoppers, Unfettered Shoppers, and Kitchen Strangers, although the appropriate portion sizes and price points for each segment may differ.

The six segments described above are intended as a framework for the supermarket operator; naturally, they will have to be modified for each local market (this subject is addressed in Appendix A). But a thorough understanding of the relative importance of these segments—and the importance of each in your market—is essential for understanding who your current and likely future competitors are targeting. At the same time, by identifying large segments whose needs are not being met, you will be in a position to introduce merchandising innovations with a strong likelihood of succeeding.

III. MAJOR OPPORTUNITY AREAS FOR THE 1990s

The decline of other once-powerful retailers like the department stores and mass merchandisers is proof that even the most entrenched retailers are vulnerable. Supermarkets currently face an erosion of their core business as well as intense competition as they move into non-traditional business areas in search of profitable growth. These conditions demand a strong response. Today's supermarket operator must establish a disciplined process for change within the constraints of a dynamic retailing and consumer environment--before it is too late to adapt.

The framework you develop for planning change--and for generating and evaluating new merchandising concepts--should reflect the five basic success requirements outlined at the end of Chapter I:

- Search out non-traditional product categories and services.
- Define your portfolio of departments in a way that allows you to dominate in several key categories.
- Rationalize the business at the category, rather than SKU, level.
- Pursue opportunities to apply emerging technology to the merchandising side of the business.
- Exploit your current competitive advantages.

We kept these guidelines in mind, as well as what we had learned about the food retailing environment and consumer needs, in our search for significant non-traditional product and service concepts. Out of these brainstorming sessions came five major opportunity areas at the category level for supermarket operators in the 1990s:

- Category dominance--established retailers as well as new formats are targeting a number of pieces of the supermarket business. Many supermarkets may well have a significant opportunity to counter

these inroads through merchandising approaches aimed at dominating one or more categories through low price and/or breadth of selection, or with respect to one or more key segments.

- Nutrition--consumers are more concerned about their diet than ever before but either don't know how or don't have the time to act on their concerns. At the same time, numerous specialty retailers are already springing up to address this growing consumer need. Supermarkets have a major opportunity to provide nutritional guidance in a convenient setting.
- Convenience--important groups of current supermarket customers have less and less time to shop, and shopping shortcuts offered by competing retail formats are speeding up the unbundling of supermarket purchases. Merchandising innovation that delivers convenience to consumers would offer supermarkets a way to capture more of their existing customers' spending as well as attract new customers.
- Services--with more and more Americans pressed for time and willing to pay a premium for valued services, the service sector offers substantial longer-term growth potential. New service concepts offer many supermarkets an excellent way to enhance customer loyalty as well as stimulate store traffic.
- Asset optimization--concepts that capitalize on current competitive advantages such as convenient location or heavy customer traffic offer a way to stimulate sales and profitability. For example, streamlining inventory in certain categories in response to identified consumer needs may offer an opportunity to increase the productivity of existing assets by improving inventory turns and freeing up valuable shelf space for other promising new products and services.

It should be noted that these categories of opportunity are not a comprehensive list of possibilities. On the contrary, an assessment of the needs of major consumer segments in a specific market, in the context of local competition and the five basic success requirements, may well surface additional important opportunity areas.

On the pages that follow, the five categories listed above are briefly described, and a major innovative concept that capitalizes on each opportunity is presented in some detail. These potential merchandising innovations illustrate the kinds of dramatic change that will be essential for the supermarket in the 1990s. They have been selected from among many new product and service ideas that the Booz•Allen study team evaluated; members of the Coca-Cola Retailing Research Council contributed to the screening of these ideas. (A complete list of the new product and service concepts generated during these idea-generation sessions is included as Appendix B.)

CATEGORY DOMINANCE

Consumers are increasingly attracted to specialty stores—whether these stores are focused by segment (like the apparel stores) or by price and category (like the power merchants, who dominate a category). Today's more complex competitive arena—in which most non-food items are offered either at a lower price or at a wide selection by some non-supermarket retail formats—makes it more difficult for supermarkets to sell non-food items on a casual basis (e.g., a facing or two or housewares or socks).

A store-within-the-store is an ideal way for supermarkets to achieve dominance, either in a category or with regard to one or more consumer segments. A store-within-the-store should not only be a destination within the supermarket but a reason for a special trip—with depth in brands and products as well as competitive prices.

One execution of this concept would be a **Specialty Pet Store** catering to pet owners. Pet food offerings could be expanded to include gourmet brands and “fresh” brands in a refriger-

ated or freezer case. Pet accessories would be vastly expanded to include a more extensive array of brands and styles in such categories as leashes, clothing and toys.

Nearly three out of four families with children own pets, as do two out of three working women—groups that include many Hurried and Avid Shoppers, as well as some Kitchen Strangers. The Specialty Pet Store would capitalize on the increase in health consciousness that has affected pet foods as well as food for people. Gourmet pet foods appeal to owners who treat their pets as members of the family. A number of businesses have already responded to this trend, including WellPet, a chain that provides pet food and accessories—but not pets. Frozen, all-natural dog and cat foods have been introduced in the U.S. and Europe.

Costs to the supermarket of introducing a Specialty Pet Store might include additional aisle space, the labor costs associated with bringing in a corporate-wide pet expert, and the expense of a freezer case for gourmet food. Sophisticated displays of the merchandise would be critical for convincing customers to buy from you and inducing suppliers to sell to you.

Other categories might also be sufficiently attractive to consumers to provide supermarkets with an opportunity to create destination specialty stores within the store. Organic foods or prepared foods are two more food-related possibilities. Socks and underwear are a possible apparel specialty store. Another execution could be a mass market jewelry store offering earrings, necklaces, bracelets and low-end watches.

NUTRITION

Concern over diet is an issue that cuts across nearly all consumer segments. Many consumers are concerned about what they eat, but there is far more talk than action: they lack self-discipline or don't know how to act on their concerns on an ongoing basis. Retailers such as Nutri/System are already addressing the growing consumer need for a complete diet low in calories. Supermarkets can expand the concept from weight control to low-cholesterol and other health-related diets. The opportunity for the supermarket is in selecting and providing food in a new way and in a convenient setting—and in recapturing food dollars that are now being spent elsewhere.

An **Eat Right Club** could be designed as a joint venture with a local health care provider to help various groups of consumers meet their diet objectives (lower cholesterol, less salt, etc.). The hospital or HMO could provide a facility at the supermarket to measure consumers' cholesterol levels or blood pressure, and they would help customers plan meals and answer their questions.

With the help of the dietitian, the supermarket could develop a daily or weekly meal plan that met the health needs of the club (e.g., low fat, low sodium, high fiber) and took the guesswork out of meal preparation. The members would pick up their meals at the supermarket, either precooked (perhaps taking advantage of controlled atmosphere packaging, or CAP, technology) or as baskets of groceries. Pre-sized portions and the frequency of offering different meals could be used to help people maintain their diets.

Members of the Eat Right Club would pay a periodic fee (i.e., monthly, bi-monthly) for the diagnostics, the counseling and the meals.

This concept could be tailored to the consumer makeup and related nutritional needs of the local market. For example, Unfettered Shoppers might be attracted to a low-cholesterol version, whereas Hurried Shoppers might respond to a children's menu. The concept could also satisfy the consumer's need for quality takeout food at an affordable price.

Pricing would also vary according to local needs. Unfettered and Hurried Shoppers and Kitchen Strangers might be willing to pay moderately high to premium prices for quality takeout food. Avid Shoppers as well as Constrained Shoppers could be wooed with a "budget cook" version.

Meal size could be used to further tailor the program. Meals for one or two people would attract Unfettered Shoppers, Kitchen Strangers and Kitchen Birds. "Family packs" for four or more would be geared to Hurried and Avid Shoppers who are more likely to be serving family meals.

A joint venture involving the supermarket and a health care provider would ensure enough expertise to execute the Eat Right Club successfully. This expertise, effectively communicated to consumers, would enable the supermarket to establish a competitive advantage over other diet programs.

Clearly, a program such as the Eat Right Club would require a significant upfront commitment of management time and resources. And selecting a reputable joint venture partner in the health care field would be a time-consuming task critical for success. But once underway, such a program could be easily institutionalized.

The concept would be likely to require investing in space for consultations and inventorying food and, depending on how the program was executed, possibly a refrigerated case and preparation facilities. In addition to providing a unique service that could generate customer loyalty and increase the number of store visits, a large operation might offer a supermarket chain a significant opportunity to further increase margins by taking advantage of products bought on deals.

A related concept based on the public's concerns about nutrition could be a menu-of-the-day program. Customers would not need to be members of a club, but could just come to the market and buy that day's special meal (low-salt, low-cholesterol, etc.). The health orientation of

the program would provide added value to customers who don't have the time or inclination to think about preparing a healthy meal but are worried about good nutrition.

CONVENIENCE

In category after category, supermarkets are finding themselves battling competitors with advantaged formats. The result has been a steady erosion in the spending of their existing customers as their purchasing becomes increasingly unbundled. Merchandising innovations that deliver convenience to consumers offer supermarkets a way to capture a larger share of existing customers' food dollars, as well as to attract new customers.

The **Mini-Store** would offer a limited selection of products similar to convenience store merchandise, but including fresh produce, fresh meat and store-packed deli and baked goods. To minimize labor costs in the Mini-Store, produce and meat would be pre-wrapped or sold by the piece. Traditional convenience store items such as dairy products, snack foods, canned goods and deli items could be included in the inventory, as could health and beauty aids or videos.

The Mini-Store would be a separate section of the supermarket with its own entrance and check-outs. One potential execution of the concept would be a drive-up window. Prices would be regular supermarket prices, with some modifications—for example, no specials or coupons honored, or a flat surcharge per customer. Supermarkets that are currently open 24 hours could close up except for the Mini-Store during low-utilization hours.

Supermarkets have for years been losing a portion of their business to convenience stores because consumers believe that they can shop and check out of convenience stores more quickly. At the same time, however, supermarkets have a strong image of providing fresh food at good locations while the convenience store is viewed as a limited source of perishables at premium prices. The Mini-Store would leverage these differences by providing the supermarket with a vehicle for neutralizing the convenience store's advantages.

The Mini-Store would appeal to Kitchen Strangers, who frequent convenience stores, and to Unfettered Shoppers for last-minute items forgotten during a trip to the supermarket. A drive-up window would be particularly appealing to Hurried Shoppers with children in tow.

Potential risks to the supermarket include the loss of some regular business, the need to keep a separate inventory, additional labor, and the costs of physical modifications to the store. The potential benefits would include attracting new business and the ability to close the rest of the store during light periods, particularly for stores open 24 hours. The supermarket proper could be stocked or cleaned while the Mini-Store is open.

Another merchandising concept that could deliver convenience to consumer segments concerned about easy meal preparation is a prepared perishables department, perhaps making use of controlled atmosphere packaging. Such a department, which could offer anything from packaged raw perishables to an entire meal, should be attractive to Hurried and Unfettered Shoppers, as well as Kitchen Strangers.

Other convenience-based innovations could include a drive-up window or home shopping via television or personal computer.

SERVICES

With consumers spending more on services in general, the service sector offers substantial longer-term growth potential. New service concepts may well offer many supermarkets an excellent opportunity to enhance customer loyalty. At the same time, store traffic could be stimulated if consumers who have reduced the frequency of their supermarket visits in recent years could be lured back by non-food-related services of value to them.

A **Home Services Agency** would capitalize on the supermarket's image of trust by offering consumers a group of services that carry the supermarket's name in addition to that of a local contractor. The Agency might include any number of services required for home care—window washing, house painting, exterminating, plumbing, lawn care, or maid service.

The supermarket would select a reputable local business for each service. The Home Services Agency would market services jointly under both names, and could call on the contractor to offer discounts from his regular prices in exchange for the supermarket's endorsement and the referral of a significant volume of business.

Consumers generally have only word-of-mouth or their own past experiences to rely on when they are selecting a vendor to provide these services, and thus could be expected to respond to the assurance of quality and reliability offered by a Home Services Agency. Those individuals most likely to patronize such an agency are Hurried Shoppers, who would appreciate the convenience of finding good help, and Kitchen Birds, who might be fearful of unscrupulous contractors that prey on the elderly. Avid Shoppers might be attracted by discounted prices on essential services.

Clearly, the supermarket must screen contractors rigorously as the supermarket's image could be tarnished if a contractor failed to stand behind his or her work. However, a contractor who stands to gain considerable business through this partnership could reasonably be expected to meet his obligations. Sears has successfully developed this type of arrangement with home improvement contractors through the company's HIPS program (Home Improvement Products and Services).

The supermarket would need to select contractors and negotiate a discounted price for its customers. A desk could be set up in the supermarket for arranging services and handling customer service for the contractors. A promotional program would need to be developed for advertising the Agency to consumers.

Any number of other services could also represent opportunities for supermarkets. A Daycare Center, perhaps run in conjunction with a joint venture partner or subcontractor, could be targeted at Hurried Shoppers—working mothers with children. Operators concerned about the potential liability associated with child care could begin by testing the concept as an employee Daycare Center. (Even at breakeven pricing, the

supermarket could benefit from reduced turnover—and lower labor costs—by providing a valued non-wage benefit in an increasingly competitive labor market.) As management became increasingly comfortable with the project, the Daycare Center could initially be expanded to other employees in the shopping center and then to consumers at large.

Errand-based services, such as package receiving, a postal desk, or package wrapping, could also appeal to a range of consumers. And “round-trip” services, such as shoe repair, mending and hemming, or small appliance/electronics repair, could attract new customers and increase the number of store visits of existing customers.

ASSET OPTIMIZATION

The experience of the major department stores and mass merchandisers in the 1960s and '70s proved that even long-powerful retailers can rapidly lose their positions of dominance. In today's dynamic marketplace, supermarkets must take strong steps to stimulate their sales and profitability. New product and service concepts that capitalize on your existing competitive advantages or effect positive changes in your business structure can significantly enhance the profitability of your existing assets.

Supermarkets could benefit from some of the same economic levers that wholesale clubs utilize (i.e., reduced inventory expenses allowing lower shelf prices and, in turn, generating higher inventory turn and volume) by creating a **Streamlined Dry Grocery Department**: stocking a private label and a limited number of major brands—perhaps only one—in selected staple grocery categories. (This approach could be applied across many categories or on a selective basis.) As with hard goods, the supermarket's ability to offer lower prices, rather than wide selection, may win customer loyalty.

Several segments, particularly Avid Shoppers, would be likely to respond favorably to lower prices on selected packaged goods. Increased volume in these items would increase revenue and improve inventory turns. Having fewer

brands to stock would cut labor costs or allow low value-added labor to be reassigned to higher value-added processes.

In addition to providing specific economic benefits, the Streamlined Dry Grocery Department could assist the supermarket in targeting multiple segments. The space freed up could be reallocated to new products and services targeted at other groups of consumers, such as Unfettered or Hurried Shoppers, on a basis other than price. These additional new concepts could further increase traffic and revenue.

New business concepts could also leverage existing real estate, which for many supermarkets is a prime location convenient to consumers. Possibilities include a laundromat, a travel agency, an insurance broker, real estate brokerage, a beauty salon/manicurist, and a children's photo studio.

Making more efficient use of increasingly scarce and expensive labor could also enable operators to optimize their assets: gravity-feed shelves, for example, could cut down on low value-added labor.

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This report has provided the supermarket operator with a point of departure for constructive change. Obviously, not all of the ideas offered in the previous pages will be appropriate for every operator, or for every market. Some may be viewed as too costly, or too risky, or too small. We recognize that the selection of innovative merchandising concepts to pursue necessarily involves tradeoffs: there are always capital constraints requiring investment priorities to be set.

The competitive information that you gather on your local market will provide a context for evaluating the risk associated with a new concept. If major companies have targeted your area for expansion, then you may decide to exit a particular category rather than compete at a disadvantage. For example, if a number of specialty pet stores have opened in your trading

area, you may choose to cut back on pet food and supplies rather than invest in a concept like the Specialty Pet Store. On the other hand, if your customers already consider your store a preferred source of high-quality prepared food, then the Eat Right Club would build on that strength.

Exhibit 14 summarizes the risks and potential payback associated with the five major merchandising concepts described in this chapter. By going through a similar exercise, you can assess a concept's level of risk in the context of its potential impact, and then select the idea or set of ideas most appropriate to your situation.

RISK AND REWARD COMPARISON

	SPECIALTY STORE	NUTRITION	CONVENIENCE	SERVICES	ASSET UTILIZATION
	Pet Store	Eat Right Club	Mini-store	Home Services Agency	Streamlined Dry Grocery Dept.
ELEMENTS OF RISK					
DOLLAR INVESTMENT	◐	●	●	○	○
INCREMENTAL SPACE REQUIREMENTS	◐	◐	●	◐	○
COMPATIBILITY WITH EXISTING OPERATION	●	◐	●	◐	◐
CONSISTENCY WITH CURRENT CUSTOMER BEHAVIOR	◐	○	◐	◐	●
POTENTIAL REWARD					
SIZE AND PROFIT POTENTIAL OF BUSINESS	◐	◐	●	◐	◐
GENERATION OF TRAFFIC/CROSS-SHOPPING	◐	●	○	◐	◐

LEGEND: ● Substantial ○ Modest

IV. QUESTIONS TO CONSIDER

As you know from direct experience, the pace of change is faster today than ever before. The retail industry feels the effects of change more quickly and directly than most sectors:

- With low barriers to entry, new retail formats/competitors targeting portions of your business appear to spring up overnight
- Even small changes in volume have enormous profit implications

What we have offered in this report is a road map for competing in this dynamic environment. What is important is to do what you have always done—adapt—but to do it faster and in new and bold ways. Recognizing that this is easier to say than to do, we believe that supermarket operators must ensure that their organization is designed to adapt quickly to changing conditions in order to maintain their format's vitality and profitability. This requires:

- A merchandising strategy, both on an overall and on a category-by-category basis, designed to help them achieve their objectives in their marketplace.
- A management system that enables the organization to proactively create and to respond to change.

In summary, the following kinds of questions should be addressed:

MERCHANDISING STRATEGY

- Who are your key competitors by category?
- On what basis do these retailers compete (by category) in terms of breadth, price, mix, etc.?
- Which of your product categories are the money makers? Which draw traffic and convert this traffic into profits? Can these judgments be confirmed?
- Which categories should be focal points for your operation (i.e., categories you

should dominate), which should be edited severely, and which dropped entirely?

- How are consumers in each trading area changing? What shopping choices do they have?
- How should categories and offerings be balanced to absorb your targeted sets of customers?
- What relative advantages (price, quality, convenience, and so on) do you have and should you offer compared to “new” competitors (e.g., fast food, discounters, gourmet shops, etc.)?
- What technologies are available (in the U.S. or abroad) that make possible new or revised products and services?

MANAGEMENT SYSTEM

- Is the organization structured and managed to identify, create and/or surface new opportunities?
- Who talks to customers to find out what they like and don't like, and where they shop for what kinds of products? And how often does this communication take place?
- Who is charged with the responsibility to constantly reevaluate the business, and how is this accomplished? Do they have access to required resources and people?
- What cross-functional groups need to act as ad hoc task forces to reevaluate how business is conducted?
- Are measurement and performance systems structured to reward innovation and change?

APPENDIX A: CONSUMER SEGMENTATION METHODOLOGY

This appendix outlines the steps that should be carried out to design a needs segmentation appropriate to your particular trading area, and then briefly explains how Booz•Allen constructed the six consumer segments described in Chapter II.

I. DESIGNING A NEEDS SEGMENTATION FOR YOUR LOCAL TRADING AREA

The research on which a needs segmentation is based is typically a quantitative survey, often conducted by a market research company.

Consumer market research is carried out to identify the underlying needs and behaviors of consumers. Those consumers with common needs are then grouped together to form a needs segment. A needs segmentation can be built around purchases of any product or service; for supermarket operators, the relevant category is eating, cooking and shopping.

If budget or time constraints limit the opportunity to conduct quantitative research, two other approaches may be used. The first is to build up a needs segmentation for your market based on qualitative research, which could include focus groups (in this case, groups of consumers gathered together to discuss their eating, cooking and shopping needs). On the basis of several of these sessions, you may be able to identify the needs segments in your market.

Another approach you could take is to assume the needs segmentation described in this report approximates your market. It should be noted, though, that this segmentation was designed from a national perspective and may need to be tailored for your trading area. Such an effort will require three basic steps:

- Modifying the segmentation outlined earlier in this report for your local market
- Collecting buying behavior information on each segment
- Determining the size and attractiveness of each group

The first step is to tailor the national segmentation to your market. For example, the income and age breaks used for the national segmentation may not be appropriate for your area. In major metropolitan markets such as New York, Chicago and Los Angeles, it may be more appropriate to consider high income \$50,000-\$100,000 and very affluent more than \$100,000.

The second step is to collect data on eating, cooking and shopping behavior. One way to do this is to conduct qualitative research. This could be as simple as talking informally with customers on a regular basis, asking them where and how they shop and collecting some basic demographic information. A second qualitative approach would be to organize focus groups as described earlier.

Then, by using this data on respondents, you should be able to identify where changes in behavior occur—for example, what income level and household size are associated with looking for specials or with shopping more frequently. Once you know what these “segment markers” are for your market, you will know who are your Avid Shoppers, Hurried Shoppers, and so on.

Given these new segment definitions, you may want to revise the average spending figures associated with each group of respondents. For example, if the very affluent households are defined as those with over \$100,000 in income, then their average food spending per week should be revised upward as well.

The third step is to quantify the size of each segment in terms of number of households and spending power. First, data should be collected on households by age, income, marital status, the presence of children, and participation in the labor force. The primary source of this information on a national basis is the U.S. Government. You may wish to buy this information on a local basis from commercial data services. These services should be able to supply population or household data for your trading area broken down by age, income, presence of children, working status of women, and the presence of two parents. Or you may prefer to use the U.S. Census Bureau data.

Ultimately, you will want to select the segment or, more likely, segments that are most attractive to you so you can target your merchandising toward them. Certainly, the size and buying power of each consumer group will be important criteria. However, you may wish to use other criteria as well, such as what kinds of consumers have historically been good customers, which segments are growing rapidly, and the level of local competition for the spending dollars of each segment.

II. BUILDING THE SEGMENTATION ON A NATIONAL BASIS

At the outset, segments were identified through publicly available research. Booz, Allen began by collecting market research from food industry associations, trade journals, and consumer magazines to identify the shopping, eating and cooking needs and behaviors of Americans. Differences were initially identified based on demographics, and then demographic groups with like behaviors and needs were combined into segments with relatively homogeneous profiles.

The analysis supporting these segments was discussed with members of the Coca-Cola Retailing Research Council in an iterative process. Refinements were added based on the Council members' knowledge of their own markets.

Spending power for each segment was then estimated for different categories of spending (see Exhibit). Spending on food prepared at home, food prepared away from home and non-food consumables was estimated based on demographic profiles of households. Some estimates were made to develop the spending power for each demographic group within the six segments discussed in Chapter II. Multiple sources were consulted for developing these estimates, and the total dollars spent per category matched with the actual category spending.

Finally, for each demographic group, spending for the three categories was multiplied by the number of households in that group to arrive at total dollars spent. The segment spending is the sum of its component demographic groups. For

example, the Hurried Shoppers' spending is the sum of the spending by the single parent/low income, the mother works/high income, and the mother home/very affluent demographic groups.

Year 2000 projections were then made based on demographics and cohort (i.e., people of the same age) behavior. Projections of segment size were developed in part based on demographic projections. For example, the projections of children by age for the year 2000 indicate a slight increase in the proportion of children under age 6, suggesting a decline in labor force participation (since mothers of children under age 6 work less than mothers of children aged 6-17). However, when combined with the demographic projections of declining numbers of children per household, the impact of this increase on the number of households with children under age 6 is reduced, so labor force participation is not projected to decline based on that factor. The effects of education, divorce rates and age of mother were similarly evaluated.

Current behavior of demographic groups was not projected to continue in all cases. The most significant difference was in the householders age 65-74 without children. Currently, these people behave like Avid Shoppers, in part a result of their Depression-era background. However, in the year 2000 this demographic group will be composed of people currently in their fifties who do not share this experience and tend to be largely Unfettered Shoppers. This younger cohort group is projected to remain Unfettered rather than suddenly acquire the lifestyle of today's 65-74 group.

Spending levels in the year 2000 were projected to remain constant in real terms on a per household basis for each demographic group. Changes in the size of the market are therefore due to the number of households in a segment, not a shift in the proportion of dollars per product category. The income distribution across households was also assumed to remain constant.

Let's walk through an example in the Unfettered Shopper segment—householders age 50-64 whose children have left home.

APPENDIX EXHIBIT A-1

SIZING EACH SEGMENT CONSUMER SEGMENTS

U.S. HOUSEHOLDS															
WITH CHILDREN						WITHOUT CHILDREN									
POOR UNDER \$10,000	LOWER INCOME \$10-30,000			HIGHER INCOME >\$30,000			UNDER AGE 50			AGE 50-64			AGE 65-74		AGE 75+
	SINGLE PARENT	TWO PARENTS		MOTHER WORKS	MOTHER HOME		WIFE HOME	WIFE WORKING OR SINGLE	CHILDREN LEFT HOME	NEVER HAD CHILDREN		LOWER INCOME \$10-25,000	HIGH INCOME >\$25,000		KITCHEN BIRD
		HURRIED SHOPPER	AVID SHOPPER		AVID SHOPPER	HURRIED SHOPPER				KITCHEN STRANGER	UNFETTERED SHOPPER		AVID SHOPPER	UNFETTERED SHOPPER	
Millions Of Households (2000)	3.3	9.8	12.0	4.5	0.7	1.9	20.7	14.2	1.9	4.8	2.9	7.6			
Dollars Per Week Spent On Food Prepared At Home	33	50	56	49	56	36	41	46	39	31	46	25			
52 Weeks Per Year	52	52	52	52	52	52	52	52	52	52	52	52			
Annual Spending Power For Food Prepared At Home (\$Billions)	5.7	25.5	34.9	11.5	2.0	3.6	44.1	34.0	3.9	7.7	6.9	9.9			

DOLLARS/WEEK FOR OTHER CATEGORIES

Food Prepared Away From Home	\$10	14	42	25	50	19	32	25	28	15	25	9
Non-Food Consumables	\$13	30	39	37	45	27	20	29	27	20	29	13

The starting point for the 50-64 year olds is the household projections by Harvard University for childless households of 45-54 year olds (13.8 million households) and 55-64 year olds (12.7 million households). To separate the 50-54 year olds, the Current Population Reports of the U.S. Census were consulted, indicating that 46.8% of people aged 45-54 years old in the year 2000 will be aged 50-54. Thus the number of households aged 50-64 years old will equal 19.2 million ($46.8\% \times 13.8 + 12.7$).

However, the households who never had children must be excluded. The statistical abstract of the U.S. (Bureau of the Census) reveals that twelve percent of women aged 35-39 in 1986 are childless. Since the number of women giving birth after reaching 40 is inconsequential, by the year 2000 this cohort of women will still be childless. There will be therefore 1.1 million always childless women aged (approximately) 50-54 in the year 2000 ($12\% \times 8.9$ million). Applying the same methodology to women aged 40-44 in 1986 of whom 9% are childless yields an additional 1.1 million always childless women aged 55-64 in the year 2000 ($9\% \times 12.5$ million). Subtracting the always childless groups leaves 17.0 million households ($19.2 - 1.1 - 1.1$).

The households with under \$10,000 in household income also do not belong in this group. The statistical abstract estimates 16% of households in these age groups have income below \$10,000, leaving 14.2 million households of Unfettered Shoppers ($84\% \times 17.0$) in this demographic group.

APPENDIX B: LIST OF NEW PRODUCT/SERVICE IDEAS

In the process of carrying out this project, many new product and/or service ideas were generated. Rather than discard ideas that might hold promise for individual supermarket operators or stimulate further thinking about merchandising innovation, we have listed all these ideas on the following pages—along with a visual representation of their likely appeal to the six major consumer segments described in Chapter II.

APPENDIX: SAMPLE IDEAS

IDEA	TARGET SEGMENT					
	Avid Shopper	Hurried Shopper	Unfettered Shopper	Kitchen Stranger	Kitchen Bird	Constrained Shopper
BABYSITTING WHILE YOU SHOP	●	●	○	○	○	◐
BEAUTY SALON	◑	◐	◑	○	○	○
BLOOD PRESSURE CHECKUPS	◐	◐	◑	○	◑	◑
CATARACT CHECKUPS	◐	○	◐	○	●	◑
CHILDREN'S PHOTOO STUDIO	●	●	○	○	○	◐
COMPACT DISC RENTAL	○	◐	○	◐	○	○
CONFECTIONARY STORE	◐	◐	◐	◐	○	○
DATING SERVICE	◑	◐	◑	◑	◑	◑
DESIGNER GROCERIES	○	◐	◑	◐	○	○
DRIVE-UP WINDOW	◐	●	◑	●	◑	○
ELECTRONIC KIOSK SHOPPING	◑	●	◑	●	○	○
ETHNIC TAKEOUT FOOD	◐	●	◑	●	○	○
EXPRESS CHECKOUT WITH NO COUPONS	○	●	◑	●	○	◑
FILM PROCESSING MINILABS	◑	●	◑	◐	○	○
GRAVITY FEED SHELVES	◐	◐	◐	◐	◑	◐

LEGEND: ● — ○
 Very Attractive To Segment Unattractive To Segment

**APPENDIX: SAMPLE IDEAS
(Continued)**

IDEA	TARGET SEGMENT					
	Avid Shopper	Hurried Shopper	Unfettered Shopper	Kitchen Stranger	Kitchen Bird	Constrained Shopper
HOME SHOPPING - ELECTRONIC OR PHONE						
HOUSEHOLD PURCHASE TRACKING/SHOPPING LIST						
INSURANCE BROKER						
LAUNDROMAT						
LENDING LIBRARY						
MAID SERVICE						
MASS MARKET JEWELRY						
MASTER CHEF CUISINE						
MEAL OF THE WEEK CLUB						
MEN'S TIES						
MENDING & HEMMING						
MENU OF THE DAY						
OIL CHANGE WHILE YOU SHOP						
OPTICAL SHOP						

LEGEND: —————
Very Attractive To Segment Unattractive To Segment

**APPENDIX: SAMPLE IDEAS
(Continued)**

IDEA	TARGET SEGMENT					
	Avid Shopper	Hurried Shopper	Unfettered Shopper	Kitchen Stranger	Kitchen Bird	Constrained Shopper
PACKAGE RECEIVING						
PHARMACY						
POSTAL DESK/PACKAGE WRAP						
REAL ESTATE BROKER						
SHOE REPAIR						
SINGLES NIGHT						
SLIPPERS/SNEAKERS						
SMALL APPLIANCE REPAIR						
SNOW SHOVELING/LAWN MOWING						
TAKEOUT FOOD CHECKOUT AISLE						
TRAVEL AGENCY						
TYPING/CHECKBOOK SERVICE						
VENDING MACHINE (Film, Batteries, Jewelry)						
VIDEO DATING						

LEGEND: —————
 Very Attractive To Segment Unattractive To Segment

COCA-COLA RETAILING RESEARCH COUNCIL

The purpose of the Coca-Cola Retailing Research Council is to identify issues and problems that are considered top priority to food retailers and wholesalers, sponsor research in these areas and encourage the dissemination of findings.

The Council is composed of a representative cross-section of progressive retailers and wholesalers and is sponsored by Coca-Cola, U.S.A. and Coca-Cola Foods. It operates entirely independently in the selection and approval of projects.

The Council was originally founded in 1978 and has operated continuously since that date, producing a total of 10 projects, including this one. Following is a list of studies sponsored by the Council:

- Social Trends and Food Retailing
- An Economic Analysis of the Food Distribution Industry in the United States
- The Impact of Energy on Food Distribution
- Productivity Improvement Techniques & Strategy For The Supermarket Industry
- Planning Your Financial Growth in the 1980's: A Financial Planning Model for Food Retailers
- Lessons From Japan
- Managing The Large Food Store Of The Future
- Improving Store Manager Effectiveness
- Assessing And Capturing The Soft Benefits Of Scanning

If you would like a copy of any of these reports, please contact:

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