June 2005

Shopping Around

By Richard Turscik

As supermarkets stumble across the retail landscape, consumer packaged goods manufacturers are being forced to shift their focus to other classes of trade.

Consumer packaged goods manufacturers are thinking outside the box--outside the can, the jar and the bottle, too--when it comes to developing, marketing and distributing their products. That's a necessity, given today's rapidly changing retail landscape. Supermarkets continue to stagnate in market share, as other formats, especially supercenters, drug stores, dollar stores and even office supply stores, take off, grabbing more pennies from the consumer's dollar.

"One needs to have a much broader perspective now that the industry is much more than supermarkets," says Dr. David Rogers, president of DSR Marketing Systems in Deerfield, Ill. "It's clubs, supercenters, dollar stores. Manufacturers are going to have to adjust to that reality and look for new customers like Trader Joe's. But a lot of the more successful companies, like Trader Joe's, are building it on private label."

"Consumers are more fickle now and they shop different channels than they used to," says Bill Sinnott, group president at Ryan Partnership, a consulting firm in Wilton, Conn. "They are a lot less loyal now and can get their groceries in lots of different places, or just skip the groceries and go out and have someone make their meals for them."

That impacts the CPG players.

"It's not fun being a manufacturer in this industry anymore," says one small processed foods supplier, who did not want to be identified. "The industry is now a financial institution, and that's how it's being managed." He notes that some retailers are taking 110% deductions on shortages. "We've been saying for a long time that it's a numbers game, but it's a cash flow game now."

Observes Richard J. George, professor of food marketing at Saint Joseph's University in Philadelphia, "The challenge to CPG is that we can't make the same products, have them look the same and distribute the same. We have got to start looking at this differently. We need to follow the customer and see how she or he interacts with that environment and change the presentation accordingly."

SHOPPING HABITS STUDY

That's exactly what Unilever is doing. "We've identified some growth areas to match the ways that people are eating and shopping," says Kimberly Senter, director, category & customer strategy, at Unilever in Englewood Cliffs, N.J. To gain better insight into shopping habits, the conglomerate commissioned a study to determine where and how people shop and their different needs on different shopping trips (see sidebar, page 26). "The need for convenience and quick-trip innovations is addressed in our frozen Bertolli Dinner for Two line, while our Country Crock side dishes are a great way to finish off a meal with items that are prepared very quickly with premium ingredients and a brand consumers know and trust," Senter says.

Unilever is also developing stand-alone meal solution centers that would combine frozen, fresh/refrigerated and shelf-stable components in one easy-to-shop display. "It's a customized effort about the supplier and retailer coming together and developing the most appropriate solutions center to satisfy their shoppers' needs," Senter says.

As a whole, the CPG industry is seeking closer ties with retailers to improve efficiencies. "We are working with all of our customers to provide them with the products they need in their channel, and finding ways to develop either partnerships with retailers or find the best efficiencies to ensure the right product is in the right place at the right price," says Stephanie Childs, spokeswoman for the Grocery Manufacturers of America in Washington.

EVOLVING SHOPPERS
"Alternative formats are growing gangbusters," says Sean Seitzinger, director of retail marketing at Coca-Cola North America in Atlanta. "We see more growth coming from beverages outside of the traditional channels than inside." He adds that it's all about the shopper. "The shopper is at the center of all this change, and we think new retail formats are going to continue to evolve based on the continued evolution of what shoppers are looking for and a continued commitment that retailers have to developing formats that are different and really hone down to the unique needs of a particular shopper group."

The sheer nature of its product gives Coke a greater ability to reach more consumers than many CPG manufacturers. The company mantra is "It's all within arm's reach."

"It's about creating a 360-degree landscape for consumers and shoppers that we are within an arm's reach of refreshment," Seitzinger says. "We're where they shop, work, learn and play, and as retailers evolve their formats, we too are evolving our business model for making sure that consumers and shoppers have the beverage solutions they are looking for, wherever they are."

So are manufacturers of other CPG categories. "Traditional food outlets remain the leading outlet of choice for ready-to-eat cereal purchases, accounting for 73% of sales," says Jenny Enochson, senior director, marketing communication, at Kellogg Co. in Battle Creek, Mich. "Over the past four years, however, we've noticed that shoppers are migrating to other channels. The key to this migration is the overall selection of food offerings found in these channels. If the selection of food offerings is strong, ready-to-eat cereal does well."

Supercenters account for about 12% of cereal sales, and all channels outside of food, including supercenters, mass and clubs, grew market share, Enochson says.

Clubs are becoming more concerned about the brands they carry. "Wall Street has really challenged the clubs as they become more involved with private label," says Glenn Llopis, president of Power Insights Consulting in Irvine, Calif. After all, a format known for delivering high-quality products at a value can't take full advantage of the high margins private label can offer. "Now we're seeing that the clubs are becoming more and more brand-conscious," Llopis says.

Like dollar stores, clubs offer consumers a "treasure hunt" model that invites them to come in and get it while it's there. Expect to see more name brands in that mix. "The clubs want to get involved with manufacturers who are going to do things that are exclusive to them, whether that be a pack size, product formula, product type or co-branding," Llopis says, citing BJ's as one club chain that is getting very specific on the types of brands it wants to buy.

LOOKING TO ALTERNATIVES
Because of the changing business environment, CPG companies that five years ago would have shied away from clubs now come calling. "Retailers today are forcing CPG companies to go through massive consolidation changes, mergers and acquisitions," Llopis says. "The retailer is forcing the manufacturer to become more cost-conscious at their expense of paying off their debt to creditors. When you have that kind of environment, the big brands have to look at alternative channels."

But that look often comes at the expense of traditional supermarkets.

"We're seeing a lot of packaging differences as far as counts, sizes and things of that nature," says a merchandising executive with a leading Mid-Atlantic supermarket chain, who asked not to be identified. "We have to ask for those because we're not presented all of those all the time."

He also criticizes manufacturers for staggered rollout dates that often allow his larger competitors with warehouses or stores in other regions of the country to get new items before he can. "That is a major concern for me because the competition gets it sooner, and the consumer certainly doesn't understand or care about the fact that their physical warehouse is in a different zone," the executive says. "We'd like to see the timing of all new items be basically the same day once it's been approved and comes out of test, so everybody is on an equal playing field."

Product being sold to the booming dollar store market is also eating into mainstream grocers' sales and margins. "There is certainly some impact," says the Mid-Atlantic retailer. "We'd be foolish not to think there wasn't. We've had discussions with suppliers who have product in there and found that they often classify dollar stores and the like as a different class of trade, and that's how they justify offering them a different cost than they offer to the grocery retailer. For us, that's very dismaying, and we're not happy about it at all. But what's your option at that point, besides fighting it?"

Things have gotten so bad that Green Hills, a one-unit independent in Syracuse, N.Y., has all but abandoned some CPG categories. Diapers and baby food have been condensed into the paper goods aisle to free up room for more profitable olive oils, vinegars and specialty foods. Thanks to dollar stores, the American Greetings assortment has been halved. "We're moving further and further away from CPG," says John Mahar, director of operations. "At some point Wal-Mart is going to have it cheaper and we're not going to be able to match their pricing--nobody is. They just have a totally different cost structure than us."

ATTACKS ON TRADITION

Wendy Liebmann, president of WSL Strategic Retail in New York, says, "The traditional supermarket and food/drug combo is absolutely being assailed from all sides, which is really impacting the way they do business across all their key categories." Big box outlets are assailing them on one end with strong private labels and values, and the small boxes, like dollar stores, are coming at them from the other with paper products, household cleaners and other items. "Some of those are no-name, others are national brands," says Liebmann. "Dollar stores are moving more aggressively into national brands, particularly around personal care categories and health and beauty aids."

Plus, many manufacturers find them a pleasure to do business with. "It's a lot easier and a lot more profitable doing business with large discounters like Big Lots, Grocery Outlet and the dollar stores," says one. "They may not have blue-chip retailing names, but they've got blue-chip financial statements and they pay people on time for their inventory, with no deductions. It's like old-school retailing."

BRAND EROSION

The expansion of dollar stores into grocery poses yet another threat to CPG: the erosion of brand name clout and market share. After all, if a dollar store is selling a bottle of ketchup for a buck, are consumers still willing to plunk down $1.59 for a bottle of Heinz at the A&P? That's led the name brands to fight back with innovative new products.

"Brands are learning to be much more creative in the way they do business," Liebmann says, pointing out Heinz's lines of flavored and colored ketchups. "It's not just the Heinz you grew up with, but sort of a new voice for a new generation," she says, citing Campbell's as another manufacturer standing out by creating a more distinctive and less commodity-like presentation for its soups.

"There's a very clear recognition by manufacturers that in this new world of retailing they have to do a much more aggressive job in branding at retail to stand out," Liebmann says. "They need to have a retail strategy beyond distribution, and they need to market and present themselves more aggressively. They can't wait years to update their presentation, formulas and voice on the shelf."

The astute ones are already doing that.

"The big guys keep getting bigger," says Coke's Seitzinger. "For us, that means we need to continue to evolve our business model and our account management structure to call on these larger customers, whether it is a Wal-Mart or Kroger. The big players are having more and more of an influence on our business. We're seeing more partnership, more collaboration and more of an opportunity to work closely with those retailers to develop beverage solutions that are consistent with their overall business strategies."

Because of its size and power, many view Wal-Mart as a threat to CPG.

"In some cases Wal-Mart has become 30% of sales, and that's not a good place to be," says Ted Taft, a partner in Meridian Consulting in Westport, Conn. "The more strategic suppliers are saying, 'How can we help the supermarket channel survive?'"

"Many people who work for consumer goods manufacturers are very, very concerned about the tail wagging the dog, and that tail being Wal-Mart," says DSR's Rogers. He sees it as the Europeanization of America. "One just has to look at the situation in Europe and see how things have changed for them there. This is what's coming in this country, although perhaps not to the same degree," Rogers says, noting that in the U.S. a good chain will have about 20% of its sales in private label, compared to between 50% and 60% for a British chain like Tesco or Sainsbury.

"Private label innovation is moving to the retail segment, but large parts of the supermarket industry are not innovative and will suffer accordingly," Rogers says, decrying the notion of manufacturers controlling category management and aisle-cluttering cardboard shippers. "What you as a retailer are doing is allowing the manufacturer to inconvenience your customer and damage your retail brand," he says. "I find it dumbfounding that it still goes on."

Taft has problems with the notion of ECR, or efficient consumer response. "The word 'efficient' has actually become a problem because you can't cost-cut your way to growth," he says. "Manufacturers need to create new consumer usages and go from just selling product categories to looking at higher levels of needs," he says. "They need to look beyond the product categories they compete in, and it's a whole different ballgame. For some it may be a scary process, but for others it's very exciting."