

Grocery

The supermarket sector still has weekly foot traffic on its side — so why is it allowing other channels to walk on its confectionery sales share?

Channel Leaders*	
Chain	Annual Sales (in billions)
1. The Kroger Co.	\$60.6
2. Albertson's Inc.	\$40.4
3. Safeway Inc.	\$38.4
4. Ahold USA	\$22.5
5. Publix Super Markets Inc.	\$20.6
*Excluding supercenters **For 2005	

This is no time for super-markets to dig their heels in old footprints. It used to be that the channel was king in any food/ consumables category, but that is not a given anymore, not now with such stellar channel (and channel blurring) competition. The plain and simple fact is — simplicity is what many other channels are using to reel more consumers in — convenience and quick meal/snack solutions to targeted customers. If supermarkets want to reign in the grocery/snack items they used to practically consider their birthright, they will have to swallow some retail pride and serve up more consumer-focused solutions.

"The grocery channel has finally woken up. It's still in the early stages, but it's finally starting to get that the 8-80 market doesn't exist anymore," explains Frank Dell, CEO of Stamford, Conn.-based Dellmart & Co., a researcher and frequent speaker for the retail industry. "Having multiple target markets is fine, but they have to determine which customer segments they are trying to serve."

"The implication for front-end confection is huge," says David Fields, managing director of Ascendant Consulting, LLC, Ridgefield, Conn. "The customer advantage of in-aisle scanning is a fast checkout; by the time a customer reaches the register, he or she is done shopping," he explains.

Supermarkets by the Numbers*
\$478.9 billion - Total Supermarket Sales
34,052 - Number of Supermarkets (with \$2 million or more in annual sales)
48,058 sq. ft. - Median Average Store Size
\$10.98 - Weekly Sales per Square Foot of Selling Area
\$27.34 - Average Customer Transaction
2.1 - Average Number of Consumer Trips per Week
*For 2005 Source: Food Marketing Institute (FMI)

Of course, some have already put their plans into action — and quite successfully — Safeway with its Lifestyle stores, Kroger with its bigger formats (to compete with Wal-Mart) and Aldi with its limited assortments, as observed by Todd Hale, senior vice president of Consumer and Shopper Insights, ACNielsen. "A number of grocery stores have realized that they have to understand what they want to be to their shoppers," he maintains. "If you want to be a successful grocery store retailer, you have to 'go big' in terms of format, 'go value,' 'go niche,' or go away. Those are the

three kinds of players we think are going to make it."

Consolidation pressure

Within the supermarket channel, internal consolidation forces are taking their toll on the scope of things. "Larger chains are absorbing smaller chains and by doing that, they're trying to standardize what they're doing, but at the same time, they have to understand they have to differentiate," says Anthony Raissen, president of marketing consulting company InterQuantum, LLC, based in Encino, Calif. "Part of the problem is that the buyers are just overwhelmed by the choices they face on a daily basis," adds Raissen. "They know on the one hand they have to be innovative, but at the same time, there's a risk the product won't move, and they won't get their return on a peg or linear basis."

The meals of change

Meanwhile, the consumer isn't waiting around to witness the outcome. As one grocery store closes and/or consolidates, there are 10 other retailers (and restaurants) down the road

ready to satisfy a consumer's specific meal needs — which, by the way, are rapidly changing. It's not about ingredients anymore, it's about meal solutions. "While supermarkets struggle to come up with a different focus, they have to realize we're seeing a different supermarket consumer — she's looking more like a European consumer these days," says Dell. "Not every consumer, but many, are buying daily for what they need tonight. They go to a hypermarket (supercenter) or club store to pantry-load on the weekend, but during the week, they're filling in. Four to six o'clock is the highest volume time in a supermarket today, Monday to Friday."

Wal-Mart and the middle

But the change doesn't end there for the industry. "The grocery channel is really in trouble in the middle of the store," says Barry Seifer, principal of strategy for Cubellis Marco Retail Design, Northville, Mich. "The center of the grocery store, the true grocery section, is a shrinking business, and the reason for that is one hyphenated word — Wal-Mart." According to Seifer, "no one can out-cheap Wal-Mart," and so the consequence of a Wal-Mart supercenter opening in a supermarket's trading area "is typically about a 30 percent hit at the grocery section, the center."

But providing they get their strategy right and hang in there, supermarkets do have a countervailing strength — "entrenched real estate," states Seifer. "The intense localization of the supermarket industry, the location of stores within dense and even semi-dense population areas, is a strength of the conventional model," he explains. "Wal-Mart is the No. 1 owner of what's called 'dark real estate' in the U.S.," he continues. "The way they have operated, they will gain approval for a store, own and operate a store, but then they do not tend to renovate once they've fulfilled their operating objectives. They close and open another. That's not the case with supermarkets."

Moving feet to the treats

Coupled with entrenched locations comes sheer traffic, and supermarkets have always excelled in that. Although weekly foot traffic has decreased slightly from what it once was, the channel still gets about 2.1 trips per consumer — presenting many more opportunities for impulse confectionery than the channel currently takes advantage of. "Sure they have the foot traffic, but they don't convert people to buying candy that often with the exception of the holidays," contends one consultant who works with many in the industry and wishes to remain anonymous. According to this consultant's data, most consumers (90-plus percent) buy confections at some point from supermarkets, "but the conversion rate is low on any one trip," he says. The National Confectioners Association has noted a decline in dedicated confectionery space. "The channel is still the No. 1 class of trade for confectionery products when you combine all confectionery products sold there, but supermarkets have cut back or remained the same in the past decade with confectionery gondola space, even while overall store size is expanding by 25 percent," reports Jenn Ellek, director of trade communications and marketing. According to the association's recent report, "Expanding the Dimensions of Confectionery, A \$10 Billion Opportunity," the average supermarket retailer has between 250 and 300 items in the candy aisle, "but those who have more than 350 will sell 22 percent more candy," explains Ellek. Conversely, if retailers average less than 250 items, they will sell, on average, 18 percent less candy. "So the gap between less than average and more than average is a 40-point spread," she adds. So while there's no question that additional variety sells more candy, there are other ways supermarket retailers can reel in the candy business. Perhaps most obvious is for the channel to get better at what it is already good at — holiday candy merchandising. The fourth quarter is especially ripe with opportunity, particularly if Thanksgiving is factored in. The NCA study (conducted by Dechert-Hampe) revealed that 22 percent of consumers would like to buy candy specifically for Thanksgiving, but there is very little product offering available, particularly in supermarkets. Christmas candy is also a large opportunity for the supermarket channel, probably more so than retailers realize. "The three busiest shopping weeks across all channels are the week before Christmas, the week after Christmas, and Thanksgiving week," maintains Ellek. "The weeks between Thanksgiving and Christmas have become tougher for retailers in general. Supermarkets have a huge opportunity to sell more Christmas candy during that four-week period because consumers continue to shop the channel during those weeks."

Future forays

Staying ahead of the curve is part of the channel's challenge in confections and in satisfying its consumers overall. Self-checkouts are already changing the way retailers think about merchandising candy and snacks at the front end. But in-aisle scanning — where a device allows consumers to scan their products right from the shelf, then drop it into a bag — is emerging, and if it catches on the way many analysts think it will, many impulse purchases will have to be rethought by retailers.

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Retailers and manufacturers will have to come up with new ways to capture those sales. Fields' initial ideas include candy manufacturers buying some advertising space on the device whereby before a customer finishes, the device will ask if they want to add a gum or candy item.