Challenges Ahead for Supermarkets

William T. Boehm, vice president, Corporate Planning & Research, The Kroger Company, Cincinnati, OH

The story of food distribution in the United States is a remarkable one. As a nation, we are blessed with abundant agricultural resources. We have a national agricultural policy that has emphasized efficiency (output per unit of input). And, perhaps most of all, we tend to believe that markets serve consumers best.

This belief has helped produce an industry characterized by change. Over the past several years, many changes have taken place in both industry structure and in the products for sale. The result is that U.S. consumers spend proportionally less and eat better than people anywhere else in the world.

Numerous challenges lie ahead for supermarkets. Most will be evolutionary. Supermarket firms that anticipate and respond best to the need for change will survive and grow. Consumers will continue to be well served.

Marketplace Demographics and Lifestyle Changes

Purchasing patterns reflect consumer lifestyles. To be successful, supermarket companies must understand changing lifestyle needs. But understanding them is not enough. There must also be a willingness to respond and an effective and efficient follow-through. In execution, the outstanding supermarket firms are separated from the rest.

Before dealing with the challenges, let's first identify the major lifestyle trends creating the need for change.

Working Women

The substantial increase in the number and proportion of women who work outside the home is perhaps the most significant lifestyle change of the 1980's. Women who work outside the home tend to have less discretionary time, but more discretionary income that the stereotypical housewife of the 1960's. More important, they think differently about themselves and their "homemaker" responsibilities.

Generally speaking, women (who, by the way, still account for the lion's share of all dollars spent in food stores) approach the marketplace with a changed view of the traditional time vs. money tradeoff. In short, they place a higher value on their time than they did 10 years ago. This does not mean, however, that they willingly pay higher prices. They expect the marketplace to help simplify their personal high-wire balancing act. They want their shopping time to be efficient.

Aging Population

The "baby boomers" are growing up. In 1985, persons aged 20-39 numbered 80 million and represented 33.6 percent of the U.S. population. By the year 2000, persons in this age group will number just 74 million and account for 27.4 percent of the population. The median age of the U.S. population will be 36.3 years vs. 30 years in 1980.
Our aging population affects the food and merchandise distribution system in many ways. Today's "seniors" are very robust physically and mentally and have been able to accumulate more wealth during their working years than in prior generations. (The Kroger Company)

The aging of our population will affect the food distribution system in a number of ways. The product mix and merchandising approach will need to reflect the fact that households at different ages have different basic product needs. Today's seniors are a great deal more robust physically and mentally. They have accumulated more wealth during their working years than in prior generations. As a result, their product purchases will be different from the stereotypes of earlier times.

More Diverse Household Units
The married couple family is fast becoming a less important component of the food market. In 1983, "nontraditional" households (those other than married couples with children) represented about 40 percent of all households. By 1990, such households will represent 46 percent of all households units. Forty percent of the money spent in supermarkets today is accounted for by one- or two-person households compared to less than one-third of the expenditures 10 years ago.

These new households challenge the supermarket distribution system to produce, package, and sell differently. The "family dinner" is fast becoming a thing of the past. More meals are being prepared for one person—and by the person who will be eating them. Shopping responsibilities are being shared more generally by men and even teenage children. Each case presents new challenges for full, efficient service.

Growing Sense of Ethnic Background
In the 1970's, symbols and values from past decades were rejected out of hand by the "baby boomers." Today, as they begin to take a more active role in the marketplace, they are projecting their sense of individual freedom in more traditional ways.

There is a renewed sense of patriotism; people want to express their love of country and city. Ethnic roots are more important, and people want...
to make their heritage more visible. And, there is a broader participation in, and patience with, the ethnic background of others.

Each of these has implications for food purchasing and preparation. Products that lend support to these heightened feelings of patriotism and heritage are in increased demand. There is more of an opportunity for specialty and "gourmet" product marketing. Target marketing—the concept that the products offered by each store should meet the needs of those who shop there—has become almost a necessity. These are big changes for a food retailing industry that used mass marketing in the past.

Supermarket Responses

These lifestyle changes give rise to the marketing challenges facing food retailers today—the need for more variety in both product and package, more freshness, and better service both in the departments and at checkout.

Larger Stores and Prepared Foods. The challenge to offer variety is often discussed in terms of store size and new product introductions. But that is only the beginning. Modern supermarkets, which average more than 40,000 square feet, typically cost $5 million to build. It is not unusual for these stores to employ 200 or more people. To deal with the management challenges in such stores, supermarket companies are developing and testing new organizational structures, employee training programs, and computer-based financial analysis tools for use in the store. Store employees are being given more responsibility for decisions affecting product offering and in-store merchandising.

The variety challenge extends throughout the entire supermarket. Take, for example, the supermarket delicatessen. Modern consumers wish to spend less time cooking, yet increasingly they prefer to eat at home. Reflecting this trend, the variety of products offered in the supermarket deli has expanded dramatically.

In-store bakeries are also responding to this trend with a personal touch. Today's shopper can select customized birthday cakes, fancy desserts, and even gourmet cakes—all designed to meet each customer's personal requirements.

The key, however, is that these selections are available amid the convenience of the full-service combination food and drug store, where shoppers can visit the floral shop, have a prescription filled, or complete other daily shopping errands—and pick up an already prepared evening meal—all in the same trip. For today's no-time-to-waste lifestyles, that kind of convenience gives a new dimension to meal planning.

Target Marketing

Target marketing is the title frequently given to today's specialized marketing focus. It takes supermarkets far afield from the days when chain stores were built and stocked according to cookie cutter standards. Through demographic and lifestyle research, it is possible to target product offerings to those areas where purchases are likely to be highest. Wine, fresh seafood, fresh salads, and juices are examples of products with important demographic purchase tendencies.

Actually, the targeted marketing of grocery stores is nothing new. Good retailers have always had a good understanding of who their customers were and what they wanted. Today's huge demographic data systems and elaborate computer models are useless unless local managers make them a part of their decision framework. Checkout scanner systems

Marketing U.S. Agriculture
produce tons of data. The challenge is to convert it into useful information.

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**Food Safety**

According to the Food Marketing Institute, the buzzwords in supermarketing today are “fast, fit and fresh,” “fast” to meet the needs of the time conscious, “fit and fresh” to be compatible with today’s concern for health and nutrition. Within this “freshness” context is another emerging challenge for supermarkets: food safety.

Already, public interest in food safety is mounting. A March 13, 1988, headline of the *Wall Street Journal* read, “As ‘Fresh Refrigerated’ Foods Gain Favor, Concerns About Safety Rise.” The trend can be tracked to many areas of recent attention including California Proposition 65, the use of Alar and other pesticides, and the sobering 1987 “60 Minutes” report on poultry processing and salmonella.

An estimated 2 million cases of food poisoning a year occur because of improper food handling at home. What’s more, the problem is changing from macro (observable contamination) to micro (bacteria, mold, viruses, yeast, and parasites). As the selection of in-store prepared foods expands, supermarket operators must increasingly contend with the invisible enemy of microbiological contamination.

Many supermarket companies have already implemented scientific testing and employee training programs to address these concerns. Such companies are fully aware that any incidents involving the safety of food prepared in-store will surely harm the consumer confidence that is so vital to the continued growth of these categories.

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**Better Service**

Service is the last in this list of supermarket challenges due to the emerging lifestyle changes. There was a time when service was an “either-or” challenge—supermarkets were either “full service” or “self-service.” Today, it is more a question of quality service than one of quantity. Increasingly, consumers expect knowledgeable help. A friendly face at the checkout counter is taken for granted. This need for knowledgeable service is evidenced in an increasing demand for consumer education. Simply stated, today’s consumers know less about the food system and about food preparation. Prepared foods in the service meat department may help make cooking less of a mystery, but supermarket employees are increasingly being looked to for help in providing information.

The demographic trends discussed earlier are making it more difficult to respond to this desire for better service. The traditional pool of service workers, ages 17-29, is shrinking. Supermarkets, like other service industries, are challenged to look outside this labor pool for help. Senior citizens, the middle-aged, and even the handicapped account for a growing proportion of the supermarket work force. That trend will continue.

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**The Future**

These challenges make food retailing one of the most exciting segments in the entire industry. Change will continue to be the norm with new store formats, new departments, new product offerings, and new opportunities for customer service. “Neighborhood” supermarkets will continue to evolve—as unique and as individual as the shoppers who walk through their doors.

On your next trip to the supermarket, take the time to look closely. You may be surprised at what you see.