Looking into the crystal ball: 10 years from now

By Amanda Howe*

Amanda Howe is the founder and managing director of Oblique Solutions, an Australian business that provides leading edge, relevant and practical category management (CM) solutions that are specific to Australia and industry proven. Amanda's experience spans the UK, Europe, Asia and Australia where she has worked on both sides of the desk – supplier and retailer – with many of the top FMCG players; MasterFoods, Heinz, Pfizer and WHSmith to name but a few. Amanda draws upon this real life experience to offer insight and stimulate questions about what is still a huge opportunity for many businesses in Australia.

In the past couple of years I have focused on discussing current industry topics such as EDLP, private label, pharmacy, petrol forecourt retailing and much, much more.

(For a copy of these visit our website: www.obliquesolutions.com.au).

In this - my fifth year as a regular columnist for *Retail World* – the theme is all about the practical, real life implementation of category management and strategy. Using current industry topics as case studies, this series of articles is designed to help your business recognise ways of working smarter, to provide methods of greater trade engagement and to illustrate more effective methods of increasing brand sales. Whether large or small, working smarter is a constant that continues to divide FMCG between those that anticipate and drive and those that sit back and react. These articles will hopefully help you identify how your business can stay ahead of the rest, within such a competitive category framework.

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In an industry that is constantly changing, there is a need for every business within FMCG to understand and assess the key business levers that will serve to establish, lead and drive a point of difference between it and the competition.

The use of category management is one such lever. It can mean slightly different things to different businesses and is a lever that has changed drastically since inception some 16 years ago. The underlying drivers that have determined the success or failure of category management are constant, however, and understanding these will ensure your business is ready for the challenges the industry will throw at it in the future.

So, what will category management look like 10 years from now? In order to answer this, we must firstly define the key factors that will shape the FMCG industry within Australia over the next 10 years. In my opinion, here are six of the most important:

1. Retailers will be strong marketers of their brand and their private label brands

With greater emphasis on differentiation and shopper loyalty, the Top 2 will have an experienced marketing department responsible for the equity and strength of the store brand and the private label brands within the store.

Marketeers populating these departments will have been hand-picked from the Top 30 Australian and global manufacturers, and overseas will still be considered rich pickings for private label development – experience in implementation being the key attraction. Building a brand is no different for a retailer than for a manufacturer – it has simply been that within Australia the domain of brand building has been well and truly manufacturer-only turf. Elsewhere in the world this is not the case.

The Tesco brand is the third most recognised and trusted brand in the UK and, in Switzerland, private label market share is at its highest at 45 per cent.*

This brand equity battleground will be a key focus for both Coles and Woolworths over the next 10 years as they discover long-term, majority shopper loyalty relies on more than just price. *This is going to mean* additional pressure for manufacturers in areas

Wal-Mart tops the global retailer ranking, with a significant size differential to other retailers.

such as breadth and depth of range, new product development (NPD) success, retailer specific offers, strategic partnerships and information sharing with the trade.

2. Front of store will come to the fore

With an unsustainable lack of focus on front of store to date, the importance of the shopper – more to the point, how to keep the shopper happy and in the store for as long as possible – will be realised 10 years from now. Not detracting from the ongoing push of lowering costs and the importance of the back door, it will simply mean that the balance between front and back of store will be in greater alignment.

The biggest shopper research study ever conducted within Australia** shows there is little shopper understanding employed inside the supermarket currently. Antiquated practices such as the dotted positioning of core basket items, e.g. bread and milk; unrelated 'impulse' hang-sells, e.g. shower mitts with canned tuna; and intended versus actual store traffic flow, e.g. hot and cold spots; are all common yet ineffective methods of satisfying the needs of today's shopper.

With more traditional marketing tactics becoming increasingly costly yet decreasingly effective and the average number of shopping trips per household per week on the increase, the number of shopping touch points will be the focus of brand managers across Australia – retailer and manufacturer - 10 years from now.

This is going to mean a shift for both retailers and manufacturers from the 'what' to the 'why' factor when it comes to data source choices, i.e. the difference between what people buy on a day-to-day basis as opposed to why they do and why this changes.

For retailers, a wealth of information exists but this is largely basket, panel and scan data with the 'why' factor being provided largely by manufacturer insights.

For manufacturers, the picture is somewhat rosier when it comes to insights, but much of the 'why' that exists is largely around brand, not category, and certainly not shopper. Without the understanding for how to drive behaviour in-store, FMCG businesses will fall behind. Today, data is in abundance, but 10 years from now it will be the 'why' factor that prevails and the balance between retailer and manufacturer knowledge and between consumer and shopper understanding will be much more equal.

3. It's a channel Jim, but not as we know it

Channel proliferation, blurring and cross-over are all familiar terms today in an FMCG environment where retailers are pushing to build on their role in the life of today's busy consumer. This level of blurring will continue, but the definition and approach to channels will be different 10 years from now.

Current channel distinctions are such because of natural progress, more so than a particular, concerted, strategic effort by many manufacturers. Terms such as 'route', 'petrol', 'foodservice', are the functional definitions applied to channels and dictate the subsequent approach for many manufacturers.

This isn't how shoppers see these channels, however. For shoppers it is all about a mid-week stock to get me through to the next big shop, an emergency shelter for household essentials, an indulgent treat for that special night etc, and the role that one petrol station or corner store may play can be very different to another, depending on a series of category-specific measures. The differing shopper missions, needs and mindsets from store type to store type will be clearly classified 10 years from now.

This is going to mean decision time for suppliers as to whether to go down the route of need-specific solutions, e.g. pack sizes and variants, which will inevitably be the slower sellers; as opposed to a one size fits all approach, in order to compete with localised needs. Up until now this has been a fairly straightforward decision for many manufacturers given the fragmentation of retail outlets outside of grocery, but as the big two increasingly move into these spaces, big brands are going to be forced to think small, or lose out to those that can.

Figure 2: GRDI Country Attractiveness 2004 ****

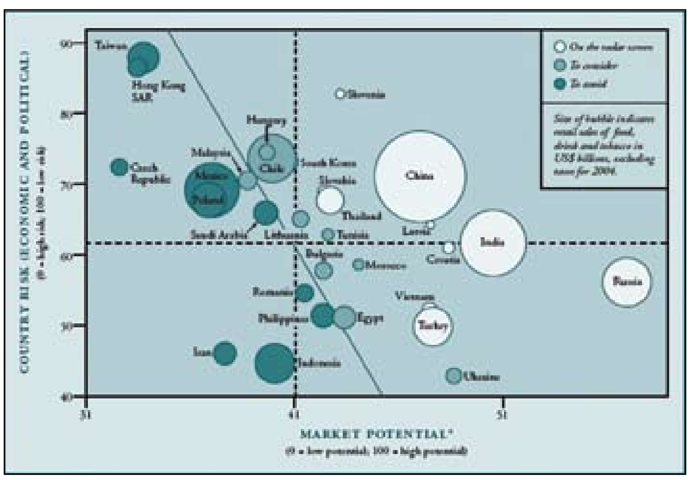

Figure 1: Global Retailer Ranking 2005 ***

Rank	Company	2005			
		Retail Banner Sales ($A mill)	Market Share (%)	Grocery Retail Banner Sales ($A mill)	Market Share (%)
1	Wal-Mart	438,115	6.1	196,913	3.7
2	Carrefour	156,044	2.2	115,897	2.2
3	Metro Group	112,451	1.6	53,324	1.0
4	Ahold	105,330	1.5	89,206	1.7
5	Tesco	95,278	1.3	70,223	1.3
6	Seven & I	82,358	1.1	59,015	1.1
7	Sears	81,303	1.1	10,317	0.2
8	Kroger	80,451	1.1	56,604	1.1
9	Rewe	75,275	1.0	57,355	1.1
10	Costco	74,089	1.0	44,600	0.8
11	Casino	70,550	1.0	52,925	1.0
12	Target	67,700	0.9	23,627	0.4
13	AEON	67,505	0.9	40,086	0.8
14	Auchan	67,483	0.9	41,836	0.8
15	Edeka	65,595	0.9	56,021	1.1
16	Schwarz Group	65,073	0.9	53,671	1.0
17	Aldi	61,884	0.9	51,464	1.0
18	Walgreens	57,998	0.8	20,894	0.4
19	Albertsons	56,499	0.8	38,782	0.7
20	Safeway (USA)	52,459	0.7	39,597	0.7
21	Leclerc	52,135	0.7	32,827	0.6
22	ITM (Intermarché)	49,448	0.7	32,042	0.6
23	CVS	45,374	0.6	13,612	0.3
24	Tengelmann	41,901	0.6	26,465	0.5
25	Woolworths (AUS)	40,795	0.6	28,755	0.5
26	Sainsbury	40,166	0.6	30,559	0.6
27	Coles Myer	39,567	0.5	20,569	0.4
28	Loblaw	32,801	0.5	25,394	0.5
29	Delhaize Group	32,657	0.5	25,113	0.5
30	El Corte Inglés	30,598	0.4	7,287	0.1

4. Globalisation coming in more so than out

The Australian grocery industry will go global over the next 10 years – the million-dollar question is whether this will be outsiders coming in, insiders going outside or maybe even a combination of both.

Let's firstly examine the likelihood of outsiders coming in. Looking at the global ranking (see figure 1) we can begin to get an idea of the size of the Australian grocery market and the might of Coles and Woolworths locally, compared to the global playing field. Although a similar size to the 20-30 ranked players, there is a significant size differential between the Top 5 and the rest – particularly Wal-Mart.

Wal-Mart bought Asda in the UK around 6 years ago, a retailer two-thirds the size of Tesco, meaning Wal-Mart has a history of buying into a developed market at a yearly retail sales value of 50 per cent more than Woolworths or Coles today.

The GRDI index (figure 2) measures the attractiveness of emerging markets and is based on four key measures:

- Country risk
- Market attractiveness
- Market saturation
- Time pressures.

As we can see, Australia does not feature on the radar screen as an emerging market, taking a back seat to Eastern Europe and the well-populated regions within Asia.

So all in all therefore, we can sit back and relax as quite clearly Australia is not on the map from a global perspective. But breaking down the GRDI measures further (see figure 3) gives insights as to why Australia may not feature.

- Country risk: Australia would score highly. It is politically, culturally and environmentally 'safe'.

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The market saturation Coles and Woolworths enjoy in Australia may make them vulnerable to a takeover bid by a global retailer.

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• Market attractiveness: Australia would score lowly; 20 million people is a drop in the ocean compared to Asia.
• Market saturation: Australia could score highly or lowly. It would score lowly if a global player was intending to come in and start from scratch, as the market would be considered to be fairly saturated. In saying this, however, Aldi has done exactly that. It would score highly if a global player was intending to buy out an existing player – particularly Coles or Woolworths given the market shares that these retailers enjoy – as well as a lack of other considerable global players in the market.
• Time pressure: Australia would be middle ground; currently it's not time pressured for entry but this would change if there was a risk of losing first mover advantage.

All in all therefore, Australia is not a lucrative emerging market but a possible take over market and take over would be the most logical, if not only, option for any of the Top 5 retailers.

This would mean one of two things for retailers in Australia. Firstly, that they move into turf protection mode, building strong loyalty defences with shoppers and expanding into other channels as quickly as possible.

Both of these have been identified as must-do strategies over the next 10 years. At the same time, they themselves would need to embark on global expansion. Without global expansion, Coles and Woolworths are going to fall further behind in terms of size on a global scale whilst having nowhere else to grow domestically in the not too distant future – a factor that will not sit well with shareholders – and, ironically, will leave them increasingly open to a take over. What's more, the time pressure for such global expansion is now (using the GRDI measures in figure 3), especially considering the focus of these emerging markets with the Top 5. Whether Coles and Woolworths have the retailing and shopper expertise to go head-to-head with any of the Top 5 is another matter.

Secondly, Coles and Woolworths could work towards a take over, aligning their business and strategies to make it as seamless as possible for a significant other to come in. From a shopper's perspective the stores would still be branded as they are – certainly for at least five years – but the ownership would lie elsewhere.

With as much publicity as there is about Australian-owned products, the market share of brands such as Dick Smith show Australian shoppers may be loyal, but it's the purse that leads when in the supermarket. Either way, *this is going to mean* local knowledge and understanding will be critical for global strategy adaptation and implementation as well as international periscope sessions to ensure your business is prepared for the new initiatives into the Australian market.

5. Technology takeover

While realistically RFID is probably at least two to three years away from serious consideration for most FMCG suppliers within Australia, it will be one the biggest initiatives to hit FMCG's history 10 years from now. Efficiency is the number one reason for RFID adoption and these efficiencies will only increase as technology is embraced and developed.

Already proven results include the Department of Defence, which saw a 90 per cent reduction in the number of shipping containers required as a result of active RFID tagging; and Las Vegas airport saw a 20 per cent increase in accuracy of baggage rerouting as a result of RFID passive tagging as well as overall benefits in terms of customer service levels across the board.

On top of the efficiency benefits however, an area that is somewhat understated in much of the current talk around RFID is the opportunity this technology has to harness consumer and shopper insights.

Without entering into the privacy debates around when to switch the tag off and taking the tag into the home etc, the face of how we collect data is about to change. RFID is the key to understanding real-time behaviour in a real-time environment and with real-time choices. But remember, this is still only going to be the 'what' factor, the 'why' will still be reliant on the expertise within your business to mine the data and provide the critical insights.

This is going to mean data source choice, collection and harnessing methods will significantly change in 10 years from now. The need to have the right processes and people in place in order to capitalise on the data, mining the critical why factor, will also be essential. The real ROI (return on investment) will come from using RFID data – not storing it.

6. Speciality and boutique will return, but for the minority market only

Like all good fashion (excepting the 80s, of course), what goes around comes around and for grocery, this means a return to shopping as your mum used to. The key difference this time round will be that it is income and occasion exclusive. Already evident in some of the most affluent areas within Australia at the weekends, the return of shoppers to home-made, authentic stores is increasing** and will be the norm 10 years from now.

Shoppers will continue to demand the convenience and pricing offered by one-stop shops and will continue to do their 'big shop' here, however competitors to these retailers in 10 years time will not be corner shops and petrol stations, but delis, speciality butchers and bakers. Driven by an increasing sense of family, the need for a greater work/life balance and the hassle of fighting through supermarket queues, shoppers in 10 years time will seek out the convivial comfort of local shopkeepers and their fare at weekends and for special occasion meals.

This is going to mean increased pressure for both retailers and suppliers as they are required to think big yet play small and compete with the knowledge and service that will be provided by individual shopkeepers.

So if these are six of the most important factors that will shape the FMCG industry over the next 10 years, what will this mean for category management? This will be covered in part two of this series.

Please email me with your comments on this and other topics at info@obliquesolutions.com.au.

Figure 3: Global Retail Development Index (GRDI) Measures

Country Risk	Market Attractiveness	Market Saturation	Time Pressure
• Political Risk • Economic performance • Debt Indicators • Credit ratings • Access to bank financing • Short term financing • Access to capital market • Discount in forfeiting • Cost of terrorism threats	• Retail sales per capita • Law and regulation • Population • Urban population	• Share of modern retailing • Number of international retailers • Market share of leading retailers	• Compound Annual Growth Rate (CAGR) of retail sales and retail sales area, weighted by the GDP development of the economy
The higher the rating – the lower the risk of failure	The higher the rating – the more attractive the country is	The higher the rating – the bigger the opportunity for global retailing	The higher the rating – the greater the time pressure – more a short-term opportunity

* ACNielsen Grocery Report 2005
** In-store Research 2005
*** Planet Retail
**** AT Kearney