GROCERS AND GIFTS: FOOD FOR THOUGHT

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This article is one in a series of profiles of retail sectors of interest to CGTA's members. The focus here is on the Canadian retail grocery industry.

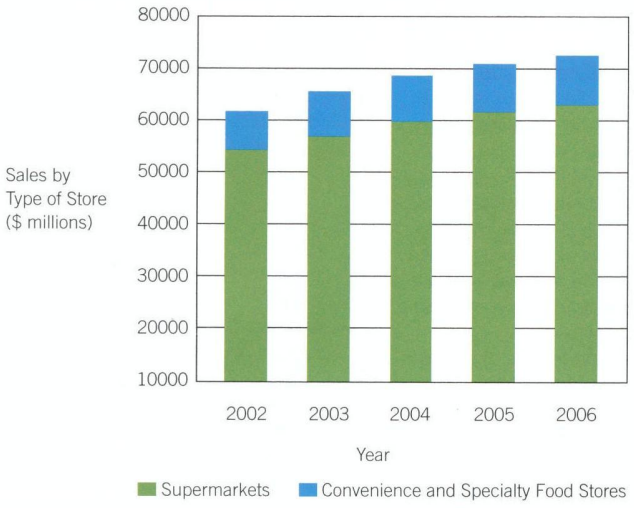
INTRODUCTION

In 1919, Theodore Pringle Loblaw and J. Milton Cork opened their first grocery store in Toronto, calling it Loblaw Grocetarias. Their concept was for customers to serve themselves and pay cash, and the success of this premise led to a major chain of supermarkets. By 1929, Loblaw had over 70 stores. W. Garfield Weston, president of George Weston Limited, acquired Cork's shareholding in 1947 and by the early 1950s gained control of the firm. Over the years, Loblaw has innovated in a number of areas including store formats, grocery products, control labels, clothing, ethnic grocery products, financial services and even pet insurance. By 2006, Loblaw had grown to become Canada's largest food distributor with 26 warehouses and 672 corporate stores, 405 franchised stores, and 451 associated stores. Sales were $28.6 billion but the firm's overall result was a small loss, in part the result of a write-down of goodwill pertaining to the purchase of its Quebec Provigo stores. In the first three quarters of 2007, operating income declined by 39% compared to the same period in 2006. Loblaw identifies many reasons for this performance in quarterly reports but it is, in part, a statement of the blindingly obvious that Wal-Mart's entry into the Canadian supermarket industry cannot have been helpful to the company. Wal-Mart's aggressive push into the supermarket sector will further intensify price competition in the already intense battle among established players. As the example of Loblaw seems to suggest (especially in the intense Ontario marketplace), the planning, restructuring, operational improvements and pricing necessary to win in this hyper-competitive industry can affect near-term profitability for some and possibly threaten the survival of others. Everyone still remembers the fall-out in the nonfood sector after Wal-Mart's entry there and now venerable brands like Eaton's and Bi-Way are just that – memories. It is in this very cost and margin conscious industry that giftware has potential for an increased presence, particularly and perhaps only if it assists grocery retailers to improve their financial performance.

RETAIL GROCERY IN CANADA[1]

In 2006, sales by the 24,000 Canadian supermarkets, convenience and specialty food stores was $72.9 billion, approximately 19% of all retail sales in Canada. Canadians spent about 9% of their income on food and they buy mostly from supermarkets which comprise 87% of food store retailing. Convenience and specialty food stores represent the remaining 13%. These percentages fluctuated little in the period 2002 to 2006, as suggested by Chart 1 below.

CHART 1: FOOD RETAILING IN CANADA[2]



The Canadian food retailing industry is a complex one, comprising many different types of stores and channel intermediaries.

DIAGRAM 1: STORES AND DISTRIBUTION CHANNELS

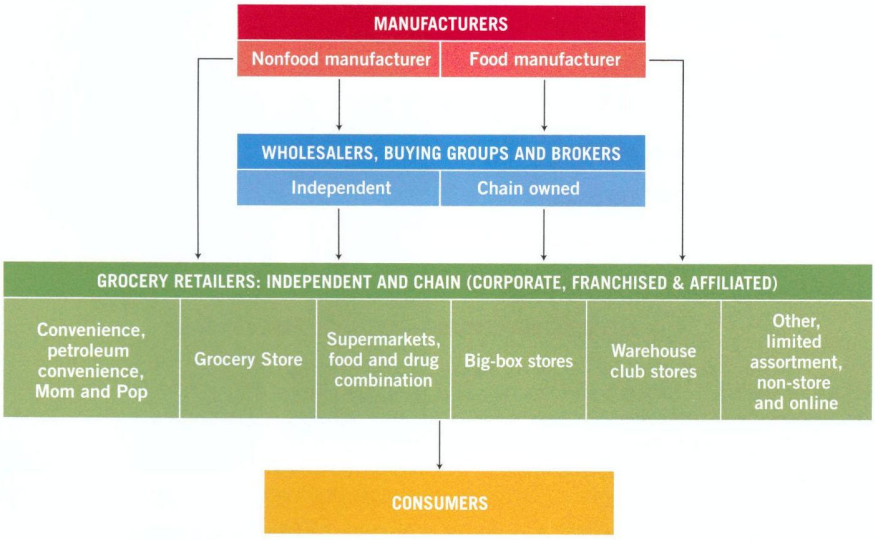


Diagram 1 describes the principal types of retailers and channels of distribution.

Manufacturers, both food and nonfood, produce items domestically and internationally that enter Canadian channels of distribution before being bought by consumers. Manufacturers typically sell their products directly to large retail chains. They usually do this through the retailers' wholly owned wholesaling arms or via wholesalers or buying groups which generally serve independently owned stores and smaller chains. The largest food and beverage processors in Canada are listed in order of size in Table 1 below, with the largest mentioned first.

TABLE 1: TOP 15 FOOD AND BEVERAGE PROCESSORS IN CANADA[3]

1. Maple Leaf Foods Inc.
2. McCain Foods Ltd.
3. George Weston Ltd.
4. Saputo Inc.
5. La Coop fédérée
6. Agropur Co-operative
7. Parmalat Canada
8. Cott Corp.
9. Molson Canada
10. Nestle Canada Inc.
11. Pepsi-QTG Canada
12. Connors Bros. Income Fund
13. Fishery Products International
14. Export Packers Co. Ltd.
15. Campbell Soup Company of Canada

Wholesalers and distributors pay for and take title to and physical possession of the products they purchase for resale to retailers. Among the services these intermediaries provide to retailers are warehousing and distribution logistics. Manufacturers may employ brokers to assist in their selling efforts and they pay the brokers directly. As contractors of the manufacturers, brokers may perform the traditional roles of a sales force or complementary roles, such as serving smaller accounts and in-store detailing. Buying groups purchase on behalf of either independently owned stores or wholesalers and seek to secure from manufacturers volume discounts on behalf of their members.

[1] Sources: Statistics Canada, CANSIM, table 080-0014 and Catalogue no. 63-005-X; Statistics Canada, National Income and Expenditure Accounts
[2] Ibid
[3] Top 100 Canadian Food and Beverage Processors, Food in Canada, September, 2006

Continued on page 4

There are many different types of retailers that sell food and other grocery products to consumers. Stores may be categorized by product assortment, store size and ownership but there is no generally agreed-upon taxonomy and there is considerable overlap among the classifications that are in use in the industry. The following provides a general overview of store types:

- Convenience stores such as corner stores and convenience stores at gas bars that carry intensively distributed convenience goods. Examples include 7-Eleven, Avondale, Kwik-Way, Mac's, Mohawk and Tiger Express,
- Grocery stores that sell mostly but not exclusively non-perishable goods and/or which may appear to be larger-than-usual convenience stores,
- Supermarket self-serve stores of at least 15,000 square feet or $2 million in sales, with about 15,000 distinct items. Examples include well-known chains such as Loblaw, Metro/A&P/Dominion, Overwaitea, Safeway and Sobeys,
- Food and drug combination stores that may have a pharmacy on the premises. Some Shoppers Drug Marts are in this category, as are a number of supermarkets,
- Big-box stores that have at least the full range of products carried by supermarkets but have about 25,000 distinct items and are larger – 40,000-170,000 square feet or larger, and typically carry an extended range of nonfood items. Loblaw's The Real Canadian Superstore is one such example. Wal-Mart's Supercentre stores can be up to 220,000 square feet[4],
- Warehouse club stores that have a broad but shallow product assortment confined principally to fast moving consumer goods and are usually larger than 120,000 square feet. These stores can offer low prices because their business model considers not just margins but very fast inventory turns as well as membership fees in limited service, low decor and more remote locations where land costs can be lower. Sam's Club and Costco are in this category,
- Internet based and non-store distribution (e.g. vending machines) of a wide variety of food and nonfood products, as well as stores that focus on particular product categories or assortments. Examples include dairy outlet stores like Reid's Dairy and meat stores like M&M's.

Stores such as those mentioned above may be either independently owned or chains, and chains may be corporately owned, franchised or affiliated. Statistics Canada considers that corporately owned and franchised companies are chains when there are more than four outlets. Stores may affiliate to use the same banner for marketing purposes and secure negotiating and other advantages as a buying group. IGA stores might be considered a buying group although IGA is a Sobey's banner. Chains comprise over 60% of retail grocery sales and independents the balance[5]. The largest Canadian grocery retailers are described in Chart 2 below.

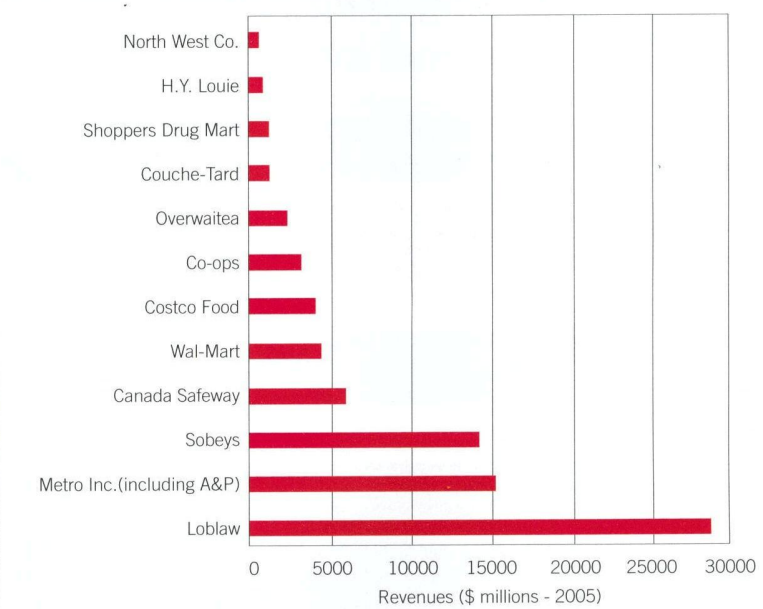
KEY TRENDS

The following considers trends in consumer demand and demography, and retailers' strategies in response.

As the demographics of Canadian consumers change, the effects are being felt in the retail marketplace. The following are examples:

- The aging of the population is bringing with it more interest in healthy and fresh foods. Among the fastest-growing food items are frozen fruit, bagged leaf vegetables and natural health supplements[7]. Low-sodium and less sweetened or unsweetened foods and products without hydrogenated oils also appear to be of increasing interest to consumers,
- The increased diversity of the Canadian ethnic mix is stimulating demand for food and grocery items not previously mass marketed in Canada. Some chains now have international food aisles and chains have emerged to focus on such foods. The success of T&T Supermarket is a case in point. With 15 stores nationally, T&T sells products such as fresh fish, shrimps, crabs, mangoes, sauces, noodles, spices and flavours from China and other Asian countries. Many retailers tailor each store's product assortment to the demographics and preferences of local shoppers, and make extensive use of technology and data to support their decisions. Almost all supermarkets have laser scanners and most of the larger chains mine their data extensively to identify opportunities,
- Time-starved Canadians want convenience and a wide assortment of goods to expedite their shopping trips. In response, retailers are building larger stores and increasing the number of products, checkout counters and technology to accelerate the customer's purchases. Many of these time-starved shoppers are also willing to pay for service and products that are convenient to use and consume. Floor and surface cleaning equipment has been growing rapidly and salad bars, in-store bakeries and florists, gift boutiques and service counters for meals that resemble home-cooked are increasingly common. More generally, Canadian supermarkets are broadening their lines to offer convenience and move closer to providing consumers with a one-stop-shop while seeking to blunt Wal-Mart's entry, but mass merchandisers and warehouse clubs are still increasing their aggregate shares of consumer expenditures,

CHART 2: REVENUES OF CANADIAN GROCERY RETAILERS[6]

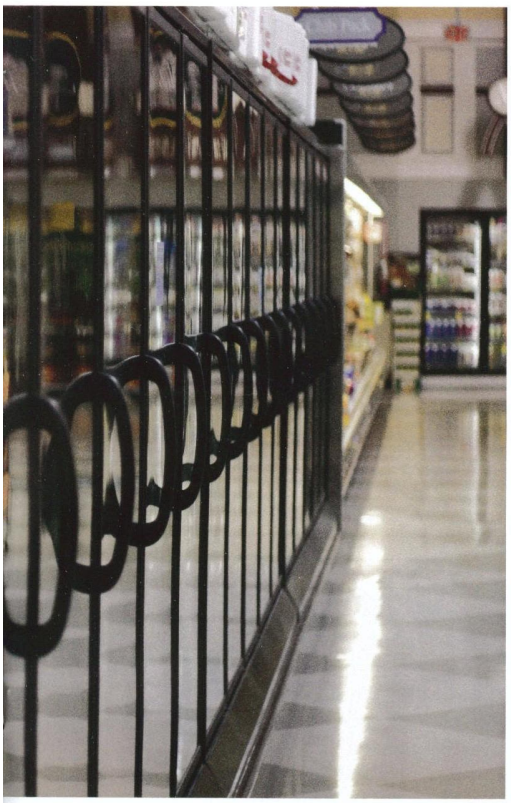


[4] Examples stores this size include Supercentre in Scarborough and London, Ontario. Wal-Mart Opens Four More Supercentres, Canadian Grocer, February 2007

[5] Percentage has remained fairly constant: Canadian Grocer Executive Reports, 2003-4 and 2006-7

[6] Source: CIBC World Markets as reported in Canadian Grocer Executive Reports, 2006-7

[7] State of the Industry Report, A.C. Nielsen, 2005



- Price-sensitive Canadians want to reduce their total food and grocery bill and seek out unbranded, price-brand and on-sale products in their usual stores, as well as shopping in chains positioned to deliver low price benefits, such as Loblaw's No Frills, Sobeys' Price Chopper, Food Basics (Metro's A&P) and Wal-Mart.

Canadian food and grocery retailers are attempting to develop competitively superior marketplace positions by choosing the right combination of the following strategic considerations as they seek to attract and retain customers and grow their purchases:

- Price and value (including quality) as perceived by the consumer,
- Depth and breadth of product range, and the number of distinct stock-keeping units (SKUs),
- Convenience of store locations and service levels,
- Investment in human resources and training, technology and in-store decor, equipment and signage,
- Product and service innovation, including store brands and non-traditional offerings,
- Branding, banners, customer communications and advertising,
- Restructuring their own stores and banners, and acquiring other firms.

Canadian food and grocery retailers use sophisticated technologies to improve inventory control, accelerate replenishment and avoid out of stocks. Technologies such as laser scanners, EDI (electronic data interchange), RFID (radio frequency identification devices to aid inventory tracking and supply-chain management), GS1 DataBar (a small bar code to allow produce and fresh items to be scanned), and antitheft devices are either in widespread use or finding increasing application. Retailers expect their suppliers to assist with the appropriate technologies both on the product and to facilitate communication between organizations, and some retailers have exacting standards in this regard.

Complying with technology and other requirements of food and grocery retailers is important but this alone may not be sufficient to ensure a supplier's success. Successful suppliers should understand and align with retailers' strategies. For example, if a retailer is seeking to revitalize its 'centre store' area with innovative, appetizing foods, or foods for a particular occasion or calendar event, purchasing managers might be interested in picnic baskets pre-packaged with the targeted goods, creating an opportunity for alert giftware suppliers. If a store is interested in increasing its perimeter sales, cross-marketing of some products with others might be of interest. For example, coffee mugs and teacups and saucers might be displayed in proximity to coffee and tea respectively. There may also be opportunities for giftware to be used by food and beverage companies to aid their own marketing efforts, such as for special packaging, complementary products and systems, and promotional and collector items, perhaps for online sale, too.

Even the low-price stores may offer opportunities for selected and likely low-priced giftware. For example, some retailers have established areas of their stores that include the assortment one might typically find in a dollar store. For example, at No Frills this area is called 'Dollar Zone'.

Chains, too, may offer opportunities for giftware sales but it is important for giftware suppliers to understand the different strategic focus each chain has in order to decide where best to seek increased product representation. For example, Loblaw is increasing its attention to general merchandise categories – perhaps a competitive response to Wal-Mart's expansion, while some other chains appear to be paying less attention to this area.

ADDITIONAL RESOURCES

For additional reading on the subject, the reader may wish to review sources such as those that follow. There are many organizations and publications in this sector; the following is intended only as a starting point for reference, not a complete list.

Associations

The Canadian Council of Grocery Distributors (CCGD) – www.ccgd.ca
The Canadian Federation of Independent Grocers (CFIG) – www.cfig.ca
The Canadian Food Industry Council (CFIC) – www.cfic-ccia.ca
The Food and Consumer Products of Canada (FCPC) – www.fcpmc.com
Food Marketing Institute (FMI - USA) – www.fmi.org

Magazines

Canadian Grocer – www.cdngrocer.com
Food in Canada – www.foodincanada.com
Progressive Grocer (USA) – www.progressivegrocer.com

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