

# Module 5: Retailing



## Learning outcomes

On successful completion of this module you will be able to:

- Describe the different types of food retailers;
- Describe the food retailing industry in Australia;
- Explain the role of private labels in food retailing;
- Outline the key decisions to be made in retailing; and
- Understand the importance of the retail experience.

## 5.1 Introduction

Retailing is the critical final stage in the supply chain where consumers actually spend money, that then supports and creates wealth for all players in the supply chain. Retailing has undergone a paradigm shift in recent times with the increasing growth of the internet and alternative channels such as farmers markets. This module looks at the current retailing of food in Australia, before considering the retail experience, that is, what makes for a good retail experience that will make consumers come back. The trends impacting the retail sector are addressed throughout the module.

## 5.2 What is retailing?

'Retailing includes all the activities in selling goods or services directly to final consumers for personal non business use. A retailer or retail store is any business enterprise whose sales volume comes primarily from retailing.

Any organisation selling to final consumers – whether it is a manufacturer, wholesaler or retailer – is doing retailing, it doesn't matter how the goods or services are sold (in person, by mail, telephone, vending machine or on the Internet) or where (in a store on the street, or in the consumers home)' (Kotler & Keller, 2012 p. 469).

This definition highlights that all members of the supply chain can engage in retailing, from the farmer; who sells at the farm gate or at a farmers market, to manufacturers; who have on site sales rooms, and to wholesalers; who allow individuals, supermarkets and speciality food stores to purchase directly.

While many international retailers have entered the Australian market only to withdraw (e.g. Franklins), food retailing in Australia is increasingly being globalised, notably with the entry of Aldi in 2001 (see Vignette below) and Costco. Australian food retailers do have significant advantages over international entrants in terms of already occupying many of the best locations, understanding consumers, and acquired market knowledge (e.g. wage rates for retail workers in Australia are significantly higher than most other countries – so business models need to reflect this). Interestingly, in terms of global retailing, over half of the top 250 retail companies are in the area of FMCGs, accounting for more than two thirds of retail revenue, however; food retailers are also the least global in their operations with nearly 45% of FMCG retailers being single country operators and operating in the fewest countries on average (Deloitte 2014).

## Aldi: German efficiency in practise

From humble beginnings in 1913 as a small food store established in Germany, Aldi today operates over 8,000 stores worldwide, approximately 340 of which operate within Australia (ALDI 2014a; IBISWorld 2014).



(Tiplow 2010)

Aldi's entry into Australia in 2001 presented a supermarket experience quite different to the existing offerings (Woolworths, Coles, IGA). As a discount supermarket, Aldi offers around 1,200 – 1350 core items in their stores (ALDI n.d), much fewer than the average of 30,000 items in Coles or Woolworths stores (IBISWorld 2014).

Aldi's business model centres on efficiency. One such example is the emphasis on labour cost savings, where pallets are used in-store as part of the displays and products are merchandised simply, to ensure a quick restocking process. Even the registers have a role to play, where items are scanned quickly to hasten customer turnover (ALDI n.d).

Aldi was the first grocery retailer to introduce a national pricing policy. Product prices are standardised across certain ranges, ensuring that whichever Aldi store customers visit around Australia has the same price for certain goods (ALDI 2014c). Aldi was also the first major supermarket in Australia to introduce unit pricing (e.g. \$1.50 per 100g) prominently within their stores, bringing Australia in line with the method already widely employed overseas (Palmer 2008).

Corporate social responsibility is highly evident within Aldi's operations. In-store battery recycling bins are present, and Aldi abides by a sustainable fishing practices program (ALDI 2014b). Aldi also hasn't supplied free plastic bags since its establishment in Australia, estimated to have saved the disposal of 150 million plastic bags annually (ALDI 2009).

Aldi's market share is expected to increase rapidly as it continues to exert pressure on the leading supermarkets, as it has already attained a 10.3% market share since 2001 (IBISWorld 2014).

## Review Questions

- 1) Who is Aldi's target market?
- 2) It is often said that due to the more limited range, consumers can't buy everything at Aldi. What opportunities does this open for other food retailers?

## 5.3 Types of Food Retailing

Food retailing falls into two classes: store retailing and non-store retailing.

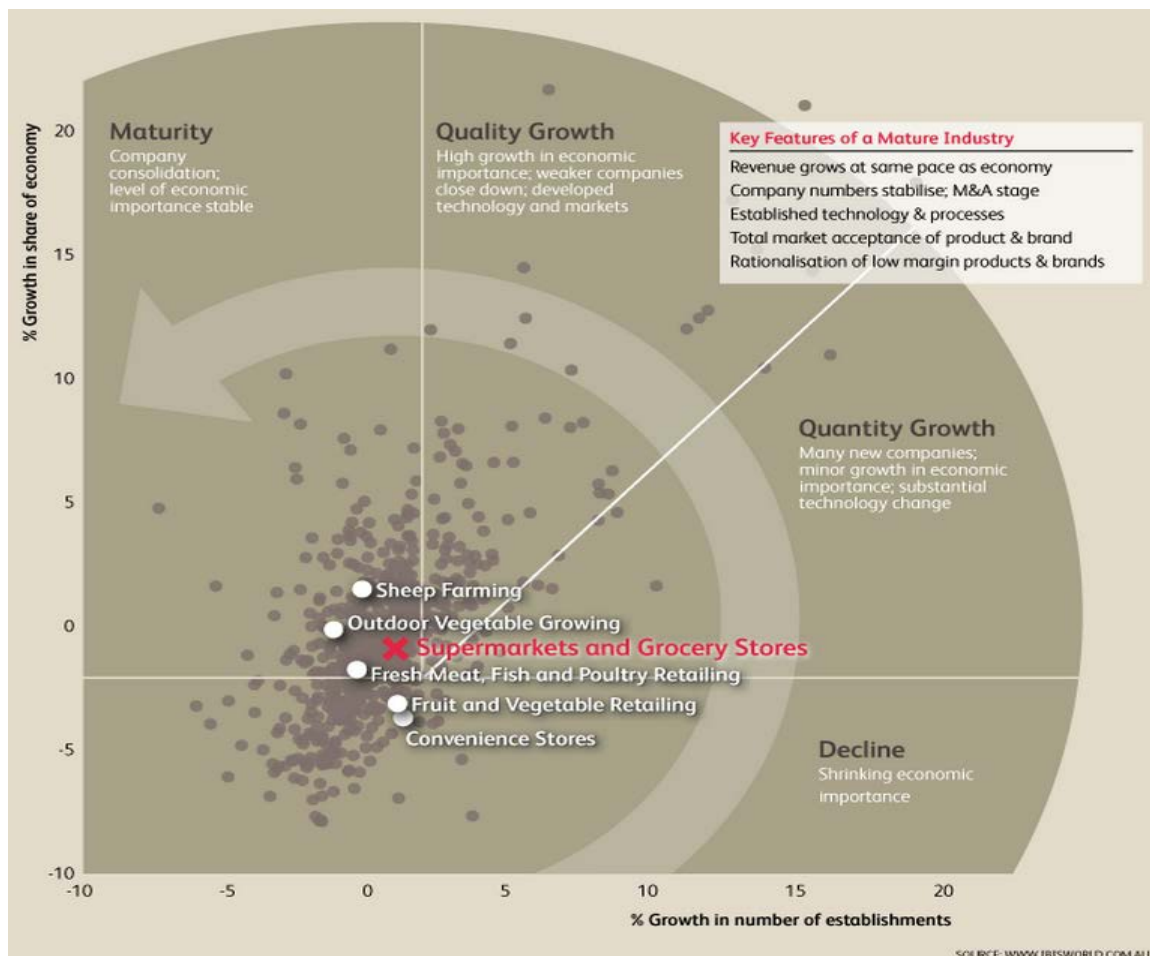
Store retailing comprises:

- **Supermarkets** like Woolworths, Coles and Aldi;
- **Speciality stores**, bakers, fruit and vegetable stores, fishmongers;
- **Convenience stores** like 7 Eleven and Lucky 7; and
- **Cash and carry warehouses** like Costco.

Non-store retailing comprises:

- **Online sales; and**
- **Direct channels like farmers' markets**

As shown in the life cycle diagram below (IBISWorld, 2014), supermarkets and grocery stores can be considered as being in the maturity stage of the life cycle, while speciality food retailers are bordering on maturity/decline, and convenience stores are clearly in a decline phase. Each type of food retailing will be briefly discussed next.



## Supermarkets and Cash and Carry warehouses

The supermarket sector is increasingly being globalised. Table 1 below highlights the market share of major retailers, with Woolworths and Coles holding over 70% of the market. Both Coles and Woolworths have high store numbers and stock approximately 30,000 product lines in each store.

**Table 5.1:** Profile of Australian Supermarkets (March 2014)

Retailer	Market Share	Number of stores	Product lines
Woolworths (Woolworths and Thomas Dux)	39.1%	Over 870	30,000
Wesfarmers (Coles)	31.6%	741	30,000
Independent Grocers of Australia (IGA)	7.0%	Over 14,000	N/A
Aldi	4.0%	Over 300	600 - 1500
Australian United Retailers (Foodworks)	2.3%	670	N/A
Costco	N/A	5	N/A

(Source: IBISWorld 2013)

Aldi entered the Australian market in 2001 and already has over 300 stores with plans to expand this number significantly. On average, Aldi stores are much smaller than Woolworth's supermarkets in size, mainly due to the much reduced product line of only 600 core lines. The majority of these product lines are also private label.

The smaller (physical size and product lines) supermarkets of IGA and Foodworks are much more numerous. Due to their smaller size they are often located in regional and rural areas where the population density is not large enough to support a larger supermarket. These stores, while badged under the one brand, are often independently owned (with some owners having multiple stores, e.g. there are over 40 Drakes (IGA) supermarkets in South Australia). They operate under the one banner to take advantage of group buyer power, through Metcash. Note in the following vignette (IGA) how they are seeking to position themselves as a 'local' food retailer.

## IGA: How the locals like it

Originally founded in the USA in 1926 as the Independent Grocers Alliance, IGA entered Australia in 1988 (Marketline 2013).

Today, IGA has a network of over 1,400 independently owned stores around Australia (IGA 2013). The franchise is successful due to its independence and capability to pool its resources to maximise buying power (Franchise Business n.d).

IGA prides itself as not being 'a one size fits all' alternative to grocery shopping. What they stock and how their stores are built are based on their slogan, 'how the locals like it'. IGA supports Australian producers by stocking their products, and tailor their grocery range to what customers would like to buy.

This customised grocery experience also extends to the physical layout of IGA stores, and five different retail formats exist around Australia. 'SUPA IGA' stores are the largest, carrying the full supermarket range, catering to shoppers who need to buy everything in one place. 'IGA' stores are a medium sized format, 'IGA X-Press' stores target the convenience market, placing emphasis on high customer service. 'IGA Liquor' stores sell alcohol, and 'IGA Fresh' stores are large supermarket formats located only in South Australia.

The franchise also displays its corporate social responsibility through the IGA Community Chest initiative, which raises funds for local communities, charities, schools, surf clubs, and other worthwhile causes. Since establishment, the IGA Community Chest has given back over \$60 million to the community (IGA 2013).

## Review Questions

- 1) Who is the target market of IGA?
- 2) How is IGA positioned compared to other retailers?





## Costco: New kid on the block

Established in 1976 in the USA, Costco is a membership-only warehouse retailer which operates 649 warehouses globally, five within Australia (Costco 2014a).

In Australia, there are two membership options available for an annual fee.

Regular customers can purchase

'Gold Star Membership', and businesses can purchase 'Business Membership', which is offered to all licensed businesses, non-profit organisations and government agencies (Costco 2014c).



(PandoDaily 2013)

Costco's pricing strategy is focussed on delivering low cost products in high volumes. Products sold are typically bulk-packaged, and despite the overwhelming size of warehouses, Costco significantly limits the brand variants of each product available. Doing this enables Costco to generate high sales volumes from the supplier, allowing Costco to discount prices and reduce marketing efforts directed to many varieties of brands for a single product (Lutz 2013). Costco also refuses to mark-up any item by more than 15%, whereas other supermarkets may mark-up by 25 – 50% (Beyman 2012).

Costco appeals to a wide target market through the diverse range of products it sells. From regular supermarket products such as groceries, confectionery and health and beauty products, Costco diversifies into many other retailing markets such as hardware, jewellery, sporting goods, electrical appliances, furniture, TV and media, apparel and more (Costco 2011). Costco also offers its house brand, 'Kirkland Signature' as an alternative to branded products, which provides brand name quality at discounted prices, allowing the company greater control over production efficiencies (Costco 2014b).

As more Costco stores open in Australia, their market share is expected to increase (currently less than 1%), intensifying the retail sector's competitiveness (IBISWorld 2014).

## Review Questions

- 1) What target market(s) does the Costco model appeal to?
- 2) Compare the retail experience of Costco to other food retailers.

So how does food retailing in Australia compare to elsewhere in the world? Many stakeholders in the food supply chain – and consumers – often complain that Australian food retailing is one of the most concentrated in the world, with the two major retail chains exerting considerable pressure and influence on other supply chain members.



#### Activity

Mortimer, G. 2013, *Fact check: Is our grocery market one of the most concentrated in the world?*, The Conversation, viewed 8th August 2013, Available by clicking this [link](#).

This article highlights that while Australia does indeed have a concentrated supermarket sector; it remains competitive, as evidenced by the entry and success of both Aldi and Costco. This article also gives some comparisons between Australia, the United Kingdom, the United States and China.

## Speciality stores

As shown in the life cycle diagram, speciality food retailers are in the maturity/decline phase of the lifecycle. The greater convenience of one stop shopping (for increasingly time poor consumers), combined with the greater perceived value for money/lower prices of supermarkets have resulted in a decline in the numbers of speciality food retailers.

Using the seafood industry as an example, an Omnibus survey conducted in late 2009 (Daneberg & Remaud 2010) found that 61% of seafood for at-home consumption was purchased at supermarkets, with 18% purchased at fishmongers or fish markets. Less than two years later, in 2011, these figures had changed to 65% of seafood being purchased in supermarkets, and only 15% being purchased from speciality seafood retailers (Daneberg & Mueller 2011).

Some speciality stores are going against this trend and improving their performance. One example of this is Victor Churchill butchery. Please look at the vignette later in this module for some details about how Victor Churchill has accomplished this.



#### Activity

Think about your (or your household's) purchasing.

- How often and what do you buy from a speciality store rather than a supermarket?
- Why?
- Has your pattern of purchasing changed over recent years?

## Convenience stores

The convenience store sector actually declined in growth by 3.6% between 2009 and 2014 (Magner 2014). Key factors causing this decline included the competition from supermarkets, as well as the growth of food sales in fuel retailers, that is, many service stations are doubling as convenience stores. While prices are higher in convenience stores, they still serve a large market of consumers for 'top up' shops between major shops. When doing top up shops, consumers value convenience and are prepared to pay more for the small number of items they purchase. This highlights the critical importance of location for these stores, i.e. they have to be convenient for consumers to access.

The two major players in the convenience sector are Lucky 7 and 7 Eleven, who together account for 17% of the market – highlighting the predominance of small businesses. The Lucky 7 network are all independent operators who combine together for economies of purchasing (through Metcash), whereas 7Eleven operates a franchise system. Therefore, 7 Eleven franchises have to pay a group fee to be part of 7 Eleven, whereas Lucky 7 stores simply have to agree to purchase from Metcash.





Activity

Again, think about your purchasing.

- How often and what do you buy from a convenience store rather than a supermarket?
- Why?
- Has your pattern of purchasing changed over recent years?

## Online sales

Online shopping is the fastest growing retail form, growing at a rate of approximately 24% over the past five years to \$12.4 billion (Magnar 2014). Consumers are gaining confidence in shopping online, combined with the increased convenience of busy working families being able to shop 24/7, will continue to fuel growth. Approximately 13.1% of total online sales are groceries and liquor.

Coles and Woolworths are the largest online retailers in Australia, accounting for a little under 20% of total online sales (Magner 2014). Both of these retailers have been online since the late 90s, with sales initially very low. The growth of online sales is also hindered by the delay in receiving goods, with both retailers delivering groceries one to two days after orders are placed, i.e. consumers have to plan ahead. This has also meant that retailers have had to develop the logistics to support this new channel: Coles operates 264 delivery vans. Both companies also have smartphone applications to facilitate the online ordering of groceries.

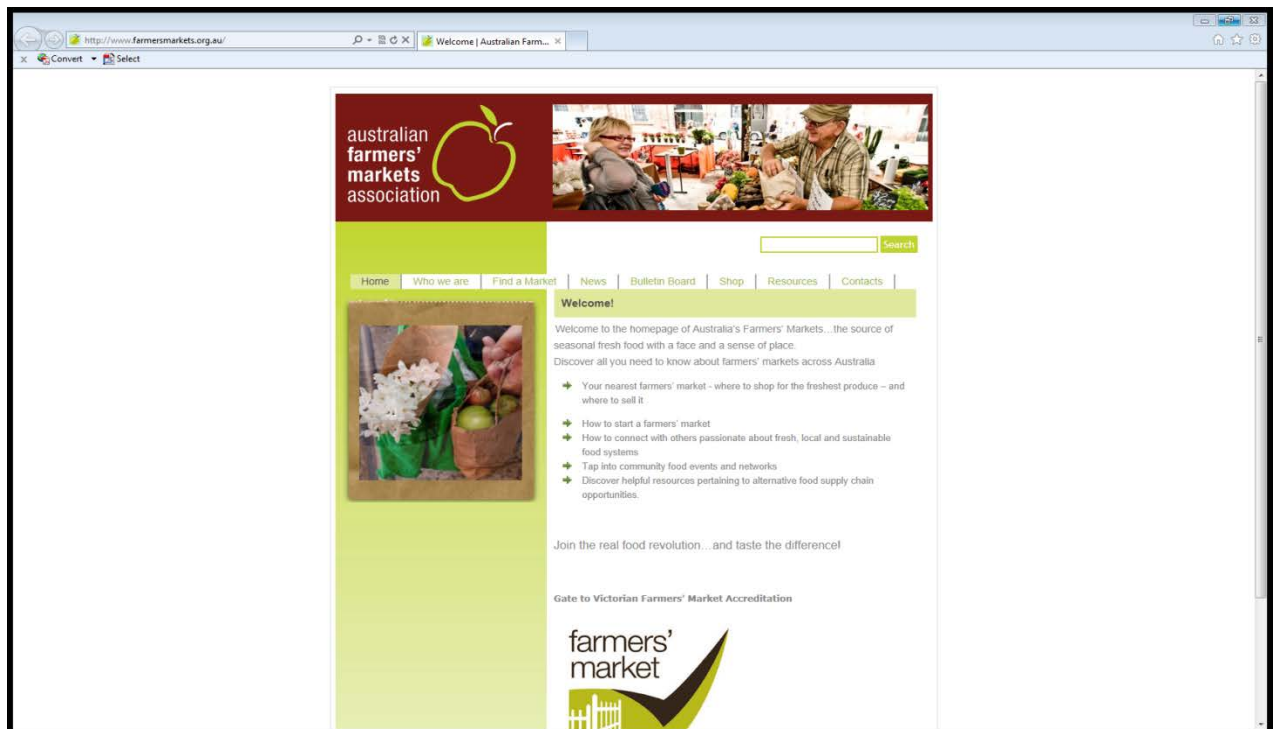


Video

Online grocery shopping is gaining popularity both in Australia and abroad. The following [video](#) highlights the use of mobile apps and digital communication with grocery stores to simplify the online shopping experience.

## Farmers Markets

A farmers market is a predominantly fresh food market that operates regularly within a community, at a focal public location that provides a suitable environment for farmers and food producers to sell farm-origin and associated value-added processed artisan food products directly to customers.



A review of the above website (accessible [here](http://www.farmersmarkets.org.au/)) shows over 250 farmers markets (who are members of the Association) operating on a regular basis throughout Australia. These markets are often on weekends and make use of venues such as schools to give access to locations in well-populated areas at minimal cost. Many are associated with organic produce – a growth area in food marketing discussed in detail in Module 11.

The direct sales to end consumers gives farmers the opportunity to increase profit margins, communicate directly with consumers and for consumers to get a depth of information direct from the producer.

A key theme that emerged when outlining many of the types of food retailing in this section was the strong growth in private labels – the topic of the next section.

## 5.4 Private Labels

A private label (or private label brand) is one developed by a retailer (as opposed to the manufacturer). Private labels can be sold at lower prices than comparable manufacturers' brands due to reduced packaging costs and lower promotional spending. Note that generic products, e.g. Black and Gold flour, are not private labels, but are unbranded – as opposed to the retailer brand of private labels, e.g. Woolworths Select.

Private labels mean that manufacturers and retailers are both competitors and collaborators within categories. Both parties bring different strengths to the bargaining table, with retailers still needing to stock manufacturers' brands due to consumer demand, but then also controlling in store stocking and placement decisions. A quick look at the labels of many private brands shows that often a leading manufacturer produces these for the retailer, e.g. Simplot (John West branded seafood) also produce private label products for the major grocery chains.

According to the Private Label Manufacturers Association, the main advantages of private label products include:

- Giving the **consumer** the option of purchasing quality products at lower prices, compared to manufacturer brands. Consumers are confident of the quality of the product purchased as the private label means it has been made to their standards.
- Giving the **retailer** a higher profit margin and an opportunity to build customer loyalty, as the product can only be purchased through the specific retailer.



Website

If you are interested in learning more about private labels, this [website](#) may be of interest.

The following extract is taken from the IBISWorld industry report - *Supermarkets and Grocery Stores in Australia* (IBISWorld 2013, p.6).

“Over the past decade, the battle for supermarket supremacy has altered the landscape for industry retailers. While competition between supermarkets has always been fierce, the entry of ALDI into the Australian market in 2001 stands as a defining moment for the industry. By offering consumers private labels or home-brand merchandise, ALDI became a viable alternative for shoppers seeking value for money in their weekly shopping. Over time, changing consumer shopping trends and the increasing popularity of private-label goods led Coles and Woolworths to introduce their own range of branded merchandise and brought about a shift in consumer shopping patterns. While both companies built their respective businesses by offering mid-priced products to middle-market consumers, the relative tier of private labels on offer effectively created split-personality shoppers. As a result, the discount and premium ends of the product market grew at the expense of the middle market.

Trends in private-label merchandise have played a pivotal role in the performance of supermarket sales over the past five years. Historically, consumers shunned private-label merchandise due to its questionable quality, limited range and bland packaging. However, the private-label segment has grown phenomenally over the five years through 2012-13 to account for about 25% of all supermarket sales. Demand for private-label goods has come primarily from changing consumer perceptions and increasing acceptance of private labels. This shift in consumer shopping trends has been particularly evident across younger demographic groups. Demand for private labels has also benefited from an increase in the quality and packaging of goods, making them more comparable with their branded counterparts. While private labels have expanded their coverage across several categories, rising consumer confidence in product quality has driven demand.

In early 2013, Metcash announced it would attempt to ramp up private-label sales so its network of independent stores can compete on price with the major supermarket chains. Metcash, through the IGA stores it supplies, is taking a three-tiered approach to private labels similar to its larger competitors. The company's middle-market private-label brand, Black and Gold, will be flanked by No Frills at the low end and Signature at the premium end of the market.”



Video

Kevin Kelly, editor of the European Supermarket Magazine, discusses the rapid growth of private labels on a global scale and the implications its presence has on established brands. His discussion is available [here](#) (watch from 0:58 – 4:12).

Globally, private labels are growing. In terms of grocery sales, private labels are estimated to account for 53% of sales in Europe, 35% in North America, 25% in Australia 28% and 17% in New Zealand (Tonkin 2014).

In Australia, the popularity of private labels started to grow in the early 2000s, with the entry of Aldi into the Australian market. Prior to the entry of Aldi (who predominantly sell private label products) private labels were often regarded as of lower quality with a limited range available. Now, major supermarkets offer a wide range of private labels, often following a three tier approach of a premium, middle and lower tier labels.

## 5.5 Decisions in Retailing

Byron Sharp (2013) identifies 9 'Empirical Laws of Retailing' as:

- Purchase goals – shoppers go to stores because the stores have something they want to buy;
- Mental and physical availability – shoppers make substantial use of their memories, going where they recall they can get something;
- Limited time – there is a relationship between shopping convenience and total store sales, the easier the consumer finds what they want, the more they buy;
- Many short trips – people make many short shopping trips and fewer longer trips;
- Selective purchasing – shoppers are selective and loyal, repeat purchasing the same items again and again, without a great deal of variety seeking;
- Top-selling items – the top selling 1000 items will make up about half of the supermarket sales;
- Colours and symbols – shoppers read very little in store, instead they react to symbols and colours;
- Specials – shoppers like to save money, time and mental effort when shopping; and
- Set paths – shoppers follow pathways of open space and avoid narrow aisles.



Activity

Again, think about your purchasing.

- How well do these 9 'laws' apply to your shopping behaviour?

These laws also highlight many of the key decisions that have to be made in relation to food retailing including:

- Location – how far will customers be prepared to travel to get to a store? This may vary depending on store type, for example, I may be prepared to travel 20 minutes to get to a major shopping centre where I can purchase a variety of things in one spot, or perhaps to a speciality food store (butcher or fishmonger) to buy something for a special occasion; but for an everyday product I may not be prepared to travel any more than 5 minutes. Food retailers need to decide whether they should be located in a major shopping centre (with associated high rental costs) or will customers still come if they are located in a strip shopping centre or stand-alone. One current trend in terms of store location is that more supermarkets are tending to be located in inner city CBD locations as populations increase. Consumers are tending to shop more often and want the convenience of stopping at a supermarket as they leave the office – in addition, more people are living in inner city locations.
- Supply chain relationships – decisions here could include issues like being an independent stand-alone retailer or whether to join a franchise (like IGA) or a co-operative.
- Differentiation – what will make the retail outlet different to other retail outlets – this relates to branding and positioning and having a memorable place in a customer's mind – so when they think seafood they think of you!

Once these macro decisions are made, in-store decisions revolve around issues like how many products to stock, how to display them, how much space to allocate to each category and so on. The reading below covers many of these issues, while the next section focuses more on the in-store experience.

## 5.6 The Retail Experience

Once location, positioning and other management decisions have been made, successful food retailing is largely dependent on the in-store experience. How crowded is the store? How narrow are aisles? Where is product located in store? How easy is it to find products? What is the customer service like? How knowledgeable are staff? How do you feel when you are in the store?

The retail experience for food is particularly critical as it is often said that for food 'you buy with your eyes', that is the visual merchandising is critical (and indeed a large part of Module 10 focusses specifically on point of purchase for that reason).

The reading below highlights some of the key issues around visual merchandising.



The following [video](#) explores the various elements of supermarket layout, merchandising, and attempts to positively influence consumer behaviour to facilitate increased consumer spending.

Video

An emerging trend is for a retail outlet to be viewed as a destination rather than just a place to shop, that is, from transactional to experiential. Think about the changes you may have noticed in supermarkets over the past 5 to 10 years. Speciality sections, like the fish counter, are becoming more like stores within a store to add visual variety and add to the experience. Speciality stores (like Victor Churchill's in the following vignette) are adding not just visual excitement but 'augmented' services like recipes, cooking classes and demonstrations, tastings etc.



## Victor Churchill: Revolutionising Retailing

Victor Churchill is a butchery which was established in 1876 in Woollahra, Sydney, originally known as 'Churchill's'. The family name (Churchill) is paired with the first name of the current owner, Victor; therefore the modern title gives tribute to the original owners (Victor Churchill 2014c).



Today, Victor Churchill offers a premium selection of international and Australian meats, presented with a uniquely European layout with an Australian sense of character. Products include grain-fed and grass-fed beef, free-range lamb, Kurobuta Pork, Full Blood Wagyu and more (Victor Churchill 2014a, 2014b). The butchery has won a multitude of awards for their innovative interior design and their gourmet experience (Victor Churchill 2014d).

Victor Churchill also offers education through their Butchery School for customers to learn about how to prepare and cook quality meats. These classes are personalised, and are offered as different types of educational experiences; such as theory, demonstrations or hands-on workshops. Classes are also divided into various culinary fields of interest, such as butcher's techniques, basic beef/lamb/pork butchery, butchery of poultry and rabbit, gourmet sausage making, and advanced or private butchery classes.

Extra educational opportunities are offered by Victor Churchill through their Cooking School. Seasonal classes are offered (such as Christmas ham/turkey demonstrations), and Victor Churchill also offers customers the opportunity of a tailored class in their cuisine of interest (Victor Churchill 2014e).

Victor Churchill stocks premium meats from Australia and around the world for professional tastes, or for anyone who wants to look outside the regular offerings at their supermarket.

### Additional Readings

World renowned chef Anthony Bourdain visited Victor Churchill on his television show, *No Reservations*. For an extended tour and discussions with the staff of Victor Churchill, access the link provided.

<<https://www.youtube.com/watch?v=Hk8ukfLYrjw>>

### Review Questions

- 1) What lessons could other food sectors learn from the success of Victor Churchill?

The development of the retail experience, including the visual merchandising, needs to be based on a sound understanding of the customer, what they want, and what they value. Often, in relation to food purchasing, customers want to be inspired, and they want variety.

Think about how butcher shops have changed – many years ago, if you entered many butcher shops, you would be confronted with a poster of a meat carcass with the various cuts of meat highlighted (how inspiring where these posters – did you always want to know where a T-bone came from?). Today these butchers' shops have evolved to where you will see photos of fabulous looking end products – like a rack of lamb ready to eat – that photo is more inspiring in terms of making you want to buy a rack of lamb and recreate the meal, than a poster showing where on the lamb the rack comes from. Butcher shops now have recipes, they have prepared/marinated meals, and they often sell the condiments (sauces/breadcrumbs) that will let you recreate a meal. They have created a consumer focussed and inspiring environment – rather than a sterile environment that does not inspire.

Importantly, the retail environment needs to clearly and consistently communicate the store image and positioning. Store layout is critical; it should be easy to navigate, clearly signed and critically in food retailing – clean. Good food retailing will engage all the senses - sight, touch, sound, smell and taste.

A good source of information and resources around retailing is the Australian Retailers Institute.



Website

Australian Retailers Association –

The Australian Retailers Association (ARA) is the peak industry body representing Australia's \$258 billion retail sector which employs over 1.2 million people. The ARA ensures retail success by informing, protecting, advocating, educating and saving money for its 5,000 independent and national retail members throughout Australia. The ARA Retail Institute specialises in consulting and education on a broad range of topics, including: Retail Buying, Financials, Visual Merchandising, Marketing, Operations, and Sales and Service Strategy.

Access their website [here](http://www.retail.org.au).

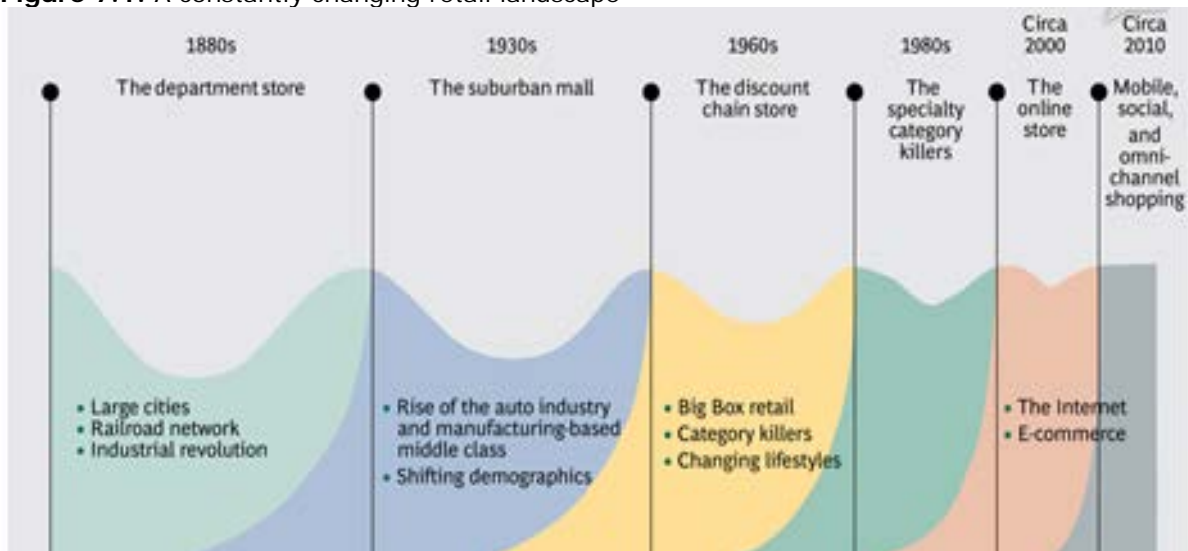


## 5.7 Retail Transformation

Retail transformation is the end-to-end reinvention of business practices conducted in order to help cope with shifts in the market environment. These changes can be focused on specific products or product categories, marketing objectives, or even transforming the entire organisation. Retail transformation is often a last chance undertaking with many large retailers looking to retail transformation only once their current business models become ineffective or when they are unable to maintain competitiveness in the marketplace. Technological advancements, declining sales, rising costs, unsatisfied customers/employees, competitors and the emergence of non-traditional business models are all threats that force these retailers into retail transformation.

Grocery and mass market retailers are often the most effected with their traditional turf often being saturated with smaller firms or foreign firms with high buying power. As can be seen in Figure 1, the retail landscape is constantly changing with price, assortment and convenience becoming progressively commoditised by the internet and service, quality, value and experience become the critical differentiators today.

**Figure 7.1:** A constantly changing retail landscape



(Source: The Boston Consulting Group 2014)

The transformation process can be embraced by businesses seeking the next phase of growth by adopting new offerings, categories, formats and channels that enable them to expand into new markets or territories. This process can enable retail leaders to stay one step ahead of the pack or enable strong but trailing retailers to leapfrog into leadership.

### Funding retail transformation

A quick start is essential in placing a company on the right road. Retailers undergoing transformation require early wins from near-term actions, such as short term sales performance improvements or operating cost reductions, which enable them to establish credibility and generation movement. These near-term actions also supply increased cash flows to help fund the transformation process by paying for longer term investments. Near-term actions also communicate a sense of urgency and seriousness to company stakeholders such as shareholders, employees, and business partners.

For retailers seeking to undertake transformation, operational and financial reporting mechanisms need to be established that enable all managers to visually see the impact of the changes being made. In addition, providing value for money is an essential foundation for the transformation process. There are a range of initiatives which can be implemented in short period of time (weeks/months) that will enable the company to drive real increase in traffic, sales, inventory turns and profits. For Example:

- Redesigning promotion
- Product assortment
- Optimizing price gaps among brands
- Vouchers and coupons
- Loyalty programs
- Price laddering (encourage customers to buy in bulk to save money).

## Primary issues

For most grocers or mass market retailers, the issues addressed during retail transformation fall into for key areas:

**Store format and footprint** – store renewal, new format development, new network strategy

**Category strategy** – category development and extension, value strategy and private-label strategy

**Customer engagement** – brand development and loyalty program development

**Omnichannel strategy** – enables the customer to shop using a channel of their choice by providing a combination of bricks and mortar, clicks, mobile and social networking.

## The role of organisational change

While strategy, funding and execution are essential for effective retail transformation, the process will not succeed without the right team leading it. While transformations are a team effort, the push change must come from top level management with CEO position holders being fully engaged by setting the tone and urgency needed. Retailers also need to recognise the need to attain new capabilities and skills throughout the management ranks. This often comes from recruiting new staff with different backgrounds and skill sets.

In any company, there are a variety of obstacles that can hinder the transformation process. According to the Boston Consulting group (2014), two thirds of the most common obstacles involved people (see Figure 2).

**Figure 5.2:** Two-thirds of classic transformation obstacles are people issues



(Source: Boston Consulting Group 2014).

## Timing

As mentioned, transformation can be a useful tool for companies seeking to keep pace or gain a step ahead of their competitors in an ever changing marketplace. All retailers can benefit from a periodic reassessment of their current stand in a shifting retail landscape. Common issues such as declining market share, falling sales and slow store traffic may just be temporary aberrations, however in a retail environment of the 21<sup>st</sup> century, they are likely indicative of larger, long term shifts. Retailers that can anticipate or lead marketplace transitions taking place will enable them to drive change and reap the benefits rather than letting market place changes drive their decisions.

## Trends and developments

**The expectation gap** – there can often be a large gap between desired expectations and what is actually delivered. Accurate measurements of unarticulated expectations can provide significant advantages to brands understanding their value and point to how customers can be delighted and gratified.

**The me-tail age** – in today shopping environment, shoppers have an unprecedented choice of products, services and experience primarily driven by advancements in technology.

**Market to the individual** – With social media sites such as Facebook, Twitter, and LinkedIn gaining ground, consumers have become more willing to exchange personal information online, such as income, personal preferences and purchase history. Advancements in marketing research technology enable more measurable data to be generated from information provided on these sites, making it easier for retailers to predict customer behaviours, needs, wants and expectations, which can then be used to tailor recommendations, communication touch points, offers and even experiences. The



Nielsen Company is one organisation performing this kind of marketing research (see web link below).



Website

Nielsen –

Access their website [here](#).

Nielsen provides firms with in-depth consumer research services and also offers a range of services to help firms manage their marketing performance. The Nielsen Company can assess management, qualification, campaign launch and post launch, audience measurement, price and promotion, sales measurements and more.

**The saturation point** – The market place is often saturated with messaging and marketing from competing companies. Retailers must perform in-depth assessment of marketing communications to ensure communications are effective at breaking through the message cluster and effectively engaging consumers.

**What's your story?** – To break through the message cluster and to stand out from their competitors, many retailers or brands are moving to storytelling marketing in an aim to establish emotional connections with their consumers. One example of this is with a commercial released by Budweiser during the XLVIII Super Bowl.



Video

View the following Budweiser commercial [here](#) for an example of storytelling marketing:



Budweiser Super Bowl XLVIII Commercial -- "Puppy Love" -- Tel...



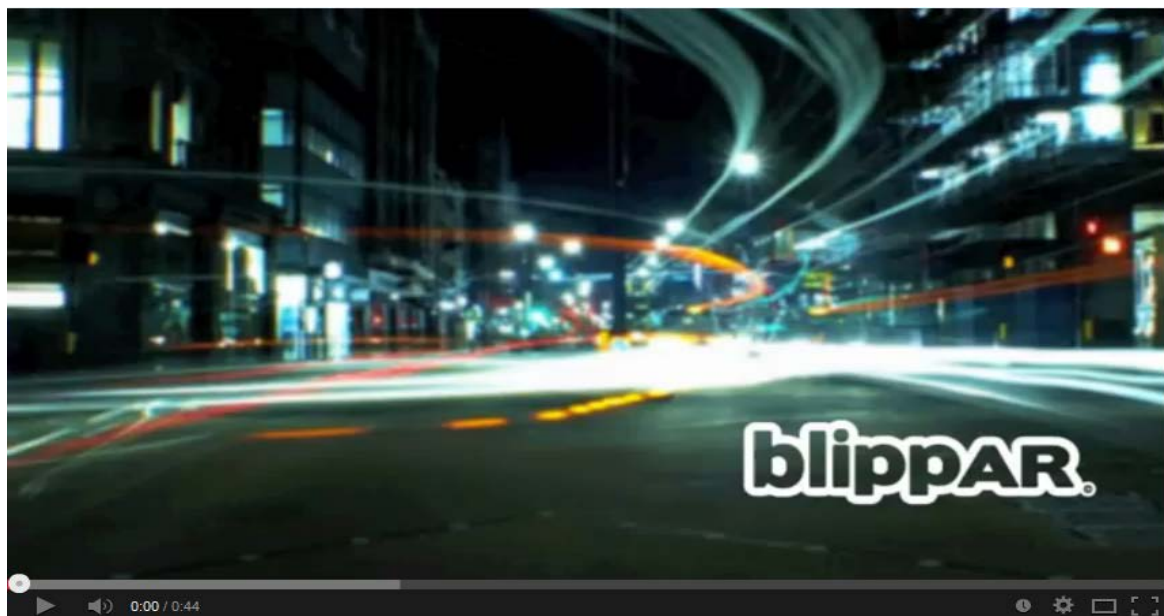
**Video: a new mainstream marketing medium** – Many retailers are turning to video as an integral part of their marketing mix. This method has become more cost effective in recent times. Retailers are also imbedding video into mail pieces or in store marketing material with the use of QR Codes (Figure 5.3), PURL's and Augmented Reality.

**Figure 5.3:** QR codes used by Starbucks Coffee and McDonald's



View the following YouTube clip for an example of Augmented Reality marketing, available [here](#).

Video



Marmite "Genie in a Bottle" using blippAR

**Personal mobile offers** – Retailers around the world have started leveraging adoption of the mobile channel with the use of mobile offers through well designed mobile applications.



View the following YouTube video for an example of Woolworths virtual shopping through their mobile application, available [here](#).

Activity



Woolworths App - Channel 9 Coverage Australia

## 5.8 Conclusions

This module has overviewed the food retailing sector in Australia as a foundation for now moving on to consider consumer behaviour in detail. Woolworth's have updated their mobile application to include virtual mobile shopping.

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