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March 1999

The Retail Food Industry In 2003

An Executive Forecast

John L. Park
Edward W. McLaughlin



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\$25 per copy

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Executive Summary

An understanding of the trends affecting the food industry is a key concern of researchers and industry decision-makers alike. These trends may involve such diverse topics as new technologies, social issues, or the evolving structure of the industry. While such trends may have significant management implications, forecasting these changes is virtually impossible when relying on historical data. Even so, the modern management paradigm is one of anticipating rather than reacting to change. Therefore, corporate executives often turn to expert opinion to guide their business strategies.

One such method of business forecasting is the Delphi technique. Typically, this method uses iterative feedback to a group of industry experts, thereby providing a consensus of opinion. In this way, key issues for the food industry may be identified and ranked for subsequent action by management. Using a variant of the Delphi technique, Cornell's Food Industry Management Program surveyed 55 senior level executives in the retail food industry. The respondents were presented 52 scenarios potentially impacting the operation of supermarket companies. The scenarios covered eight general topics, namely: technological development, industry structure, supplier/distributor relations, competition, merchandising, fresh foods, branding, and the environment. Respondents provided an assessment of each scenario as to if it would occur before the year 2003, after 2003, or never.

In addition, respondents were shown selected years of supermarket sales distributions, and were subsequently asked to provide a forecast of the distribution of supermarket sales within the general supermarket departments for the year 2003. Finally, respondents were gathered to discuss the final results in conjunction with Cornell's 1998 Food Executive Program.

We found four developments were of particular concern for the industry in 2003: 1) ECR and Category Management will come of age; 2) retailers will increasingly command the retailer-manufacturer interface; 3) tough competition will reside among food manufacturers; and 4) the "green revolution" will continue to develop. In addition, it is forecasted that traditional grocery sales will continue to decline and fresh food sales will continue to increase in their respective shares of total store sales. Although simplistic in design, this unique study method has been instrumental in the identification of trends and developments defining the face of food retailing.

Acknowledgements

Mark Twain once said, “For the majority of us, the past is a regret, the future an experiment.” It is our hope that this report will aid industry leaders in their business decisions, so come 2003, they can look back without regret. We gratefully acknowledge the executives who participate each year in the Food Executive Program. Their willingness to share their knowledge and expertise has gone a long way to foster a continuing dialogue about the state and future of the retail food industry. Any benefits the industry gleans from this study can be attributed to the generosity of those individuals.

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Table of Contents

Executive Summary	iii
Acknowledgements	iv
Table of Contents	v
Introduction	1
The Dynamic Retail Food Industry	1
Methodology	3
Survey Results	4
Technological Developments	4
Industry Structure	5
Supplier-Distributor Relations	6
Competition	7
Merchandising	8
Fresh Foods	8
Branding	9
The Environment	9
Supermarket Sales Distribution	10
A Food Industry Forecast	11
Four Essential Developments for 2003	11
Trends Worth Watching	12
Category Sales In 2003	13
Appendix	14
Other Food Industry Publications	24

The Retail Food Industry In 2003

An Executive Forecast

Introduction

Managing a successful business is a dynamic process, which requires the continual adaptation to pressures from competition, suppliers, and consumers. The retail food industry may be especially dynamic compared to other industries due to its intense level of competition and the prominent role food plays in the lives of consumers. Further, companies on the forefront of this industry are those that proactively seek to anticipate changes in the business environment. Thus, the purpose of this report is to provide the reader with a glimpse of what the future might hold for food retailing. To achieve this goal, 55 senior level executives from the food industry were surveyed in the summer of 1998 concerning the issues shaping the future of food retailing. It is anticipated that the information gleaned from these executives can help industry decision-makers as they prepare their companies to compete successfully in 2003.

The Dynamic Retail Food Industry

Before we look to see where the industry is headed, we should see where it is coming from¹. The year 1993 held a poor outlook for food retailing. The industry had experienced its worst period of growth ever, competition from previously unacknowledged sources was spreading (possibly due to their superior adoption of technology), and trade relations were actually described as “rotten.” Retail food executives were beginning to express concerns about the potential growth of the supercenter (80 were in operation nationwide, 34 owned by Wal-Mart) and other non-traditional formats entering the food arena. Worse yet, solutions on the competitive front – namely category management and Efficient Consumer Response (ECR) – were hindered by the state of trade relations.

These problems were compounded by the fact that consumers enjoyed shopping at club stores and mass merchandisers more than at the supermarket. In fact, in 1993, club stores were viewed as one of the supermarket’s toughest competitors. Interestingly enough, five years previous to that the prospect for club stores was reportedly weak, and now five years later, concern over this format has diminished. Also at this time competition and labor topped the list of concerns expressed by

¹ See *Annual Report of the Grocery Industry*. Stamford CT: Progressive Grocer Associates, 1993 and 1998.

executives. Further, they acknowledged the growing importance of concentrating efforts on perishables, prepared foods, and private label goods in order to differentiate themselves from competitors.

Moving forward to 1998, we see that some of these issues were resolved, some matured, and new issues have appeared on the horizon. Once again, topping the executive “worry list” are concerns over the quality and availability of labor, as well as competition from outside the traditional supermarket format. Additionally, executives are still concerned over the continuing decline of consumer spending on food-at-home, but have taken steps in the form of home meal replacements and other prepared food programs. On the whole, however, these programs have produced mediocre results across the industry and have been given a cool reception by consumers. Finally, the anticipated growth of the supercenter format has become a reality with more than 800 currently in operation, and Wal-Mart alone planning to open 125 more in the current year.

On the other hand, trade relations, while not perfect, have improved and great strides have been made toward the successful implementation of category management and Efficient Consumer Response. As they have done so, supermarket companies have gone far beyond the call to focus on perishables, prepared foods, and private label goods, and have added new products, departments, and services. Now, new concerns are facing the industry: the Y2K bug certainly can’t be ignored, the “greening” of American industry is impacting the way in which business interfaces with the environment, and a new consumer-centric channel of trade is gathering momentum, namely consumer direct.

The retail food industry is indeed dynamic, and a successful enterprise will anticipate those changes to the industry that will have the greatest impact on best business practices. But to anticipate changes in relationships, consumer sentiment, or the emergence of a new format is difficult, if not impossible, through reliance on historical data. For that reason business leaders often rely on a consensus of executive opinion. The question remains, how much of today’s business will be business as usual in 2003? To answer this question, this report incorporates three distinct objectives:

1. To present a list of important issues and trends affecting the food industry.
2. To present the opinions of industry executives in regards to these issues and trends.
3. To make subsequent assessment of the responses, shaping them into an executive forecast of the industry in 2003.

The report proceeds with a description of an unique methodology.

Methodology

Methods relying on the use of historical data and statistical techniques are inadequate to forecast such qualitative variables like changes in business practices or emerging issues of importance for an industry. As such, a variety of approaches have been developed for technological and environmental forecasting². In spite of the number of different approaches, they seem to share common elements, namely less-regimented procedures and expert knowledge. The method used in the current analysis is a variant of the Delphi Method. The Delphi Method is arguably the most common of the non-quantitative forecasting techniques, and has experienced little change since its development by the Rand Corporation in the 1960s.

The Delphi Method is one of gathering a consensus of opinions from a panel composed of industry experts. The panel is typically surveyed by mail to circumvent problems of peer pressure or other aspects of group behavior. The expert panel in this case consisted of 55 senior-level executives from the food industry. All respondents were participants in Cornell University's Food Executive Program during the summer of 1998. Although the panelists in this case actually meet physically, responses to the mail survey were anonymous, and made without prior discussion.

While the panel involved in a Delphi study may actually help define a list of issues and developments for discussion, the current methodology begins by relying on the expertise of the researchers. The researchers developed a series of 52 industry scenarios spanning eight subject areas (technology, industry structure, supplier/distributor relations, competition, merchandising, fresh foods, branding, and the environment). Respondents were then asked to indicate if the proposed scenario would take place before 2003, after 2003, or never take place at all. In addition, the panel was presented historic data showing the distribution of supermarket sales by category. Then they were asked to forecast the distribution of supermarket sales in 2003. Although the Delphi Method is typically iterative, experimentation with a second round survey showed negligible changes in results.

² For an extensive discussion, see Makridakis, S. and S.C. Wheelwright. *Forecasting Methods for Management*. New York: J. Wiley & Sons, 1989.

Survey Results

As is expected in a Delphi-type study, panelists will not come to a clear consensus on all scenarios. In fact a prominent feature of the method is that it does not force a consensus of individuals, and deviant opinions are tolerated. Generally this is viewed as a strength in that individuals are allowed to defend deviant answers, possibly bringing new information to the panel. An important implication of this methodology is that when panelists actually do come to a consensus, it is a clear indication of a noteworthy result. Thus, results of this survey are generally characterized in one of several ways:

1. The panel mostly agrees that the scenario will take place by 2003.
2. The panel mostly agrees that the scenario will take place after 2003.
3. The panel agrees that the scenario will take place, but can't agree on the timing of the event.
4. The panel agrees that the scenario will never take place.
5. The panel can not reach a clear consensus on the prospects of the scenario.

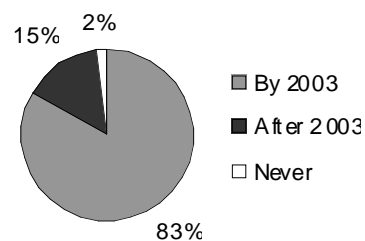
In regards to those scenarios characterized by (5) above, there is little to be learned from this analysis and those scenarios will not be discussed. The interested reader is referred to the Appendix for a listing of all the scenarios and their corresponding panel responses.

Technological Developments

In regards to technological developments, three scenarios in particular seem likely to occur by 2003. Eighty-three percent of panelists indicated that category managers would be responsible for total category bottom line by 2003. Also, 76% indicated that virtually all purchase orders would be executed by an electronic system such as the Universal Communication Standard or Electronic Data Interchange. Further, it should be noted that 100% of respondents suggested that this would be the case at some point in the future, that is, if

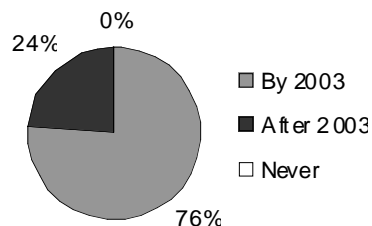
SCENARIO:

In most leading supermarket companies, "category managers" will be responsible for total category bottom line.



SCENARIO:

Nearly 100% of purchase orders will be executed via various electronic systems (e.g. UCS, EDI).



not by 2003, then at some point after that year. Finally, respondents indicated that scanning data would be the tool of choice for these activities; 76% of respondents indicated that scanning data would be the basis for nearly all shelf allocation and buying decisions by 2003.

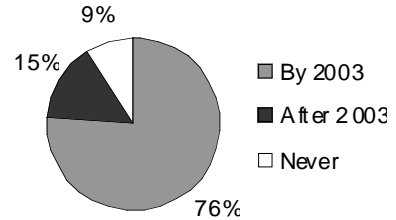
In addition, the panel consensus is that three other scenarios are likely to occur sometime in the future, although a general consensus was not reached as to when these scenarios would take place. One hundred percent of panelists agreed (48% saying “by 2003”, and 52% saying “after 2003”) that phone, fax, or computer orders would comprise 10% of consumer grocery purchases. Ninety-eight percent of panelists agreed (54% saying “by 2003” and 44% saying “after 2003”) that individual item pricing would be replaced by electronic shelf pricing systems. Also, 96% of panelists agreed (55% saying “by 2003” and 41% saying “after 2003”) that 50% of manufacturers coupons would be electronic in the future.

Industry Structure

None of the scenarios regarding industry structure received a strong agreement of respondents that they would occur by 2003. However, respondents seemed to agree that five of the scenarios would likely occur at some point in the future.

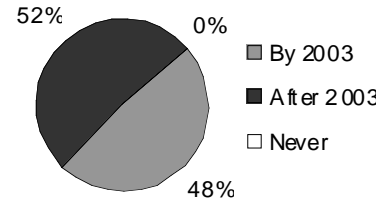
SCENARIO:

Scanning data will be the basis for nearly all shelf allocation and buying decisions.



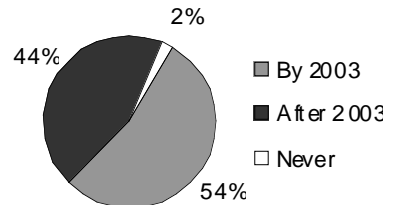
SCENARIO:

Ten percent of consumer grocery purchases will be made by telephone, fax, or computer orders from either supermarkets or third party providers.



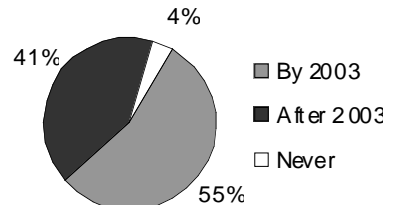
SCENARIO:

Individual item pricing will be virtually eliminated by electronic (or other) shelf pricing systems.



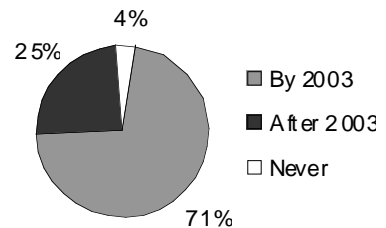
SCENARIO:

Fifty percent of manufacturers' coupons will be electronic.



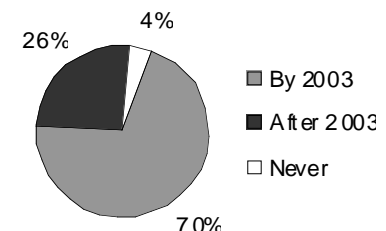
SCENARIO:

Store size has already peaked; new formats will be smaller but with higher sales productivity.



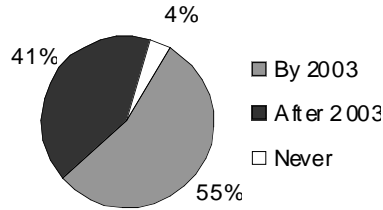
SCENARIO:

The top 10 food chains in the U.S. will account for 50% of total retail food sales (33% today).



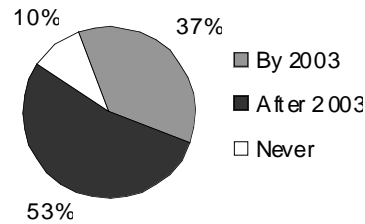
SCENARIO:

U.S. food retailers will increasingly develop alliances with foreign food companies to permit store expansion outside the U.S.



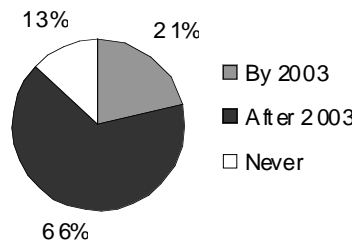
SCENARIO:

Firms foreign owned or controlled will account for 25% of U.S. food retail sales (now about 10%).



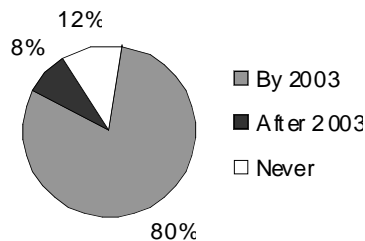
SCENARIO:

Four major U.S. wholesalers will control 80% of the wholesale trade (33% today).



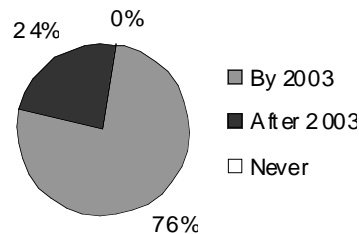
SCENARIO:

Retailers will increasingly dominate the retailer/manufacturer interface.



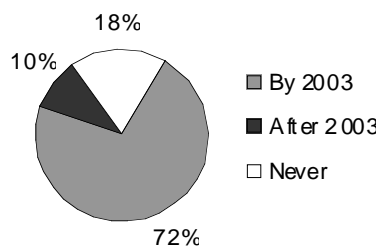
SCENARIO:

Most supermarket companies will issue formal supplier "scorecards."



SCENARIO:

Slotting allowances will continue to grow despite Efficient New Product Introduction rhetoric.



Ninety-six percent of panelists agreed (71% saying "by 2003" and 25% saying "after 2003") that store size has already peaked, and new formats will be smaller with higher sales productivity. Ninety-six percent of panelists agreed (70% saying "by 2003" and 26% saying "after 2003") that the top 10 food chains in the U.S. would eventually account for 50% of total retail food sales.

Ninety-six percent of panelists also agreed (55% saying "before 2003" and 41% saying "after 2003") that U.S. food retailers will increasingly develop alliances with foreign food companies in order to expand operations outside the U.S.. Ninety percent of panelists agreed (37% saying "by 2003" and 53% saying "after 2003") that foreign owned or controlled firms would eventually account for 25% of U.S. retail food sales. Finally, 87% of panelists agreed (21% saying "by 2003" and 66% saying "after 2003") that four major U.S. wholesalers would control 80% of the wholesale trade.

Supplier-Distributor Relations

Two scenarios regarding supplier-distributor relations seem likely to occur by 2003. Eighty percent of panelists agreed that retailers would increasingly dominate the retailer/manufacturer interface by 2003. Seventy-six percent of panelists agreed that most supermarket companies would issue formal supplier "scorecards" by 2003, with the other 24% indicating this would happen after 2003.

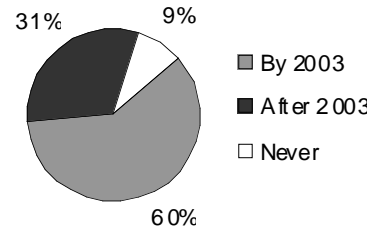
Another scenario, while not receiving a large consensus that it would occur by 2003, merits attention as one likely to occur sometime in the future. Eighty-two percent of panel respondents indicated (72% saying “by2003” and 10% saying “after 2003”) that slotting allowances would continue to grow despite Efficient New Product Introduction rhetoric.

Competition

There was no clear consensus on any of the scenarios regarding competition indicating that they would take place by 2003. However panel respondents seemed to agree that several of the scenarios would occur at some time in the future. Ninety-one percent of panel respondents indicated (60% saying “before 2003” and 31% saying “after 2003”) that supercenters and mass merchandisers would double their share of retail grocery sales from today’s levels. Eighty-seven percent of panelists indicated that as fresh food becomes more important to consumers, specialty food shops would make a significant rebound to 10% of all food sales. Eighty-six percent of panel respondents indicated (38% saying “before 2003” and 48% saying “after 2003”) that take-out prepared food sales would account for 15% of supermarket sales. Eighty-two percent of respondents indicated (51% saying “by 2003” and 31% saying “after 2003”) that most supermarket companies would eventually bypass brokers and agents, and deal almost exclusively with manufacturers. Finally, 80% of respondents indicated (40% saying “by 2003” and 40% saying “after 2003”) that

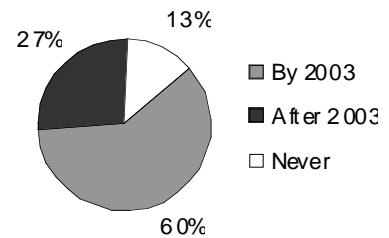
SCENARIO:

Supercenters and mass merchandisers (e.g. Wal-Mart and Kmart) will double their share of retail grocery sales (from today's levels).



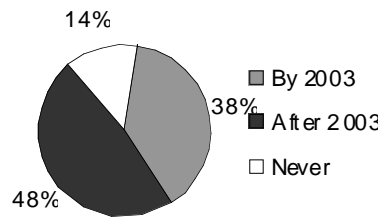
SCENARIO:

As fresh food becomes more important to consumers, specialty food shops will make a significant rebound to 10% of food sales (about 6% today).



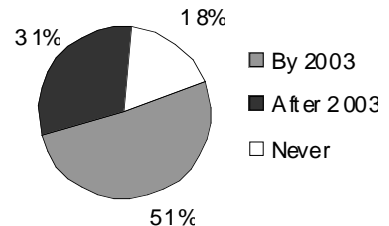
SCENARIO:

Take-out prepared food sales will account for 15% of supermarket sales.



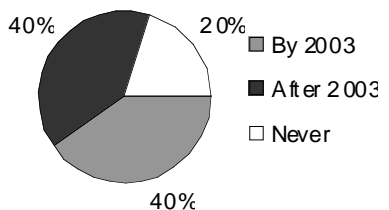
SCENARIO:

Following the mass merchandisers, most supermarket companies will bypass brokers and agents, and deal almost exclusively with manufacturers.



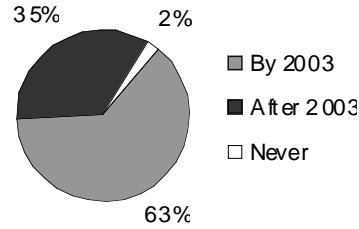
SCENARIO:

Supermarkets will pose a significant threat to the take-out portion of the foodservice industry.



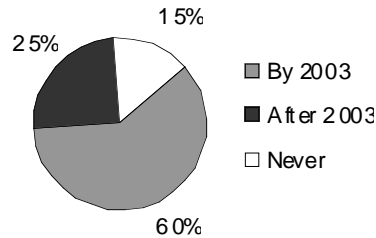
SCENARIO:

The number of manufacturers' coupons will decline by one-third (from today's levels).



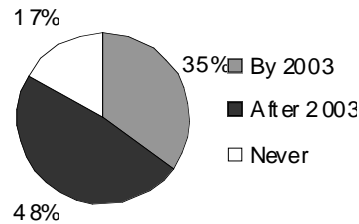
SCENARIO:

The great majority of supermarkets will decide that in-store chefs and in-store preparation are too expensive and too inconsistent.



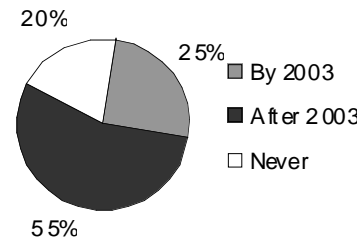
SCENARIO:

To increase freshness while minimizing transport costs, many manufacturers (especially of chilled foods) will decentralize their production facilities to regional satellite plants.



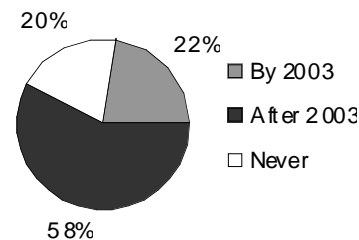
SCENARIO:

Sixty percent of supermarket sales will be perishable foods (about 45% today).



SCENARIO:

Natural, chemical-free, and organic foods will grow to 10% of food sales (1-2% today).



supermarkets would pose a significant threat to the take-out portion of the foodservice industry.

Merchandising

Although respondents came to no clear consensus regarding timing, they did seem to indicate that one of the merchandising scenarios would occur sometime in the future. Ninety-eight percent of respondents indicated (63% saying "by 2003" and 35% saying "after 2003") that the number of manufacturers' coupons would decline by one-third.

Fresh Foods

None of the scenarios regarding fresh foods received a consensus of opinion indicating these scenarios would occur by 2003, however, responses suggest that four scenarios are likely to occur at some point in the future. Eighty-five percent of respondents indicated (60% saying "by 2003" and 25% saying "after 2003") that the great majority of supermarkets would decide that in-store chefs and food preparation are too expensive and inconsistent. Eighty-three percent of respondents indicated (35% saying "by 2003" and 48% saying "after 2003") that many manufacturers (especially of chilled foods) would decentralize their production

facilities in order to increase freshness while minimizing transportation costs. Eighty percent of panel respondents indicated (25% saying "by 2003" and 55% saying "after 2003") that 60% of supermarket sales would be perishable foods compared to the 45% today. Finally, 80% of respondents indicated (22% saying "by 2003" and 58% saying "after 2003") that natural, chemical-free, and organic foods would constitute 10% of total food sales.

Branding

Respondents came to a consensus that two of the scenarios on branding would occur by 2003. Eighty-three percent of panel respondents indicated that retailers would reduce the number of sizes and varieties (i.e. stock keeping units or SKUs) stocked per brand by 2003. Seventy-five percent of respondents indicated that retailers would reduce the number of brands stocked per category by 2003.

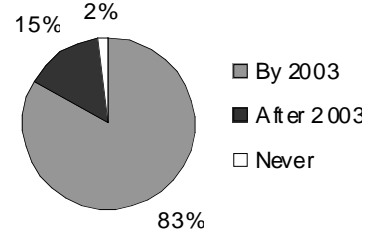
Respondents seemed to agree that three other branding scenarios would take place at some point in the future. Ninety-five percent of panelists indicated (66% saying “by 2003” and 29% saying “after 2003”) that the market share of private label products would increase to 25% compared to today’s level of 17%. Eighty-seven percent of panel respondents indicated (37% saying “by 2003” and 50% saying “after 2003”) that branded fruits and vegetables would account for 50% of fresh produce sales. Finally, 80% of respondents indicated (50% saying “by 2003” and 30% saying “after 2003”) that supermarket companies would reduce SKUs by 25% from current levels.

The Environment

Panel respondents moved towards a consensus on two of the scenarios regarding the environment; however, in neither case did they agree these scenarios would occur by

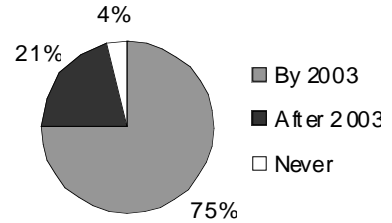
SCENARIO:

Retailers will reduce the number of sizes and varieties/SKUs stocked per brand.



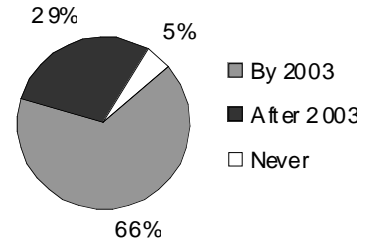
SCENARIO:

Retailers will reduce the number of brands stocked per category.



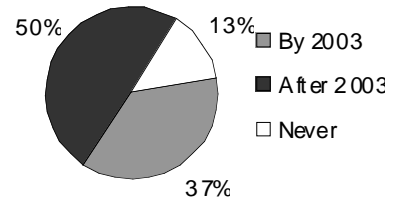
SCENARIO:

Market share of private label products will increase to 25% (now about 17%).



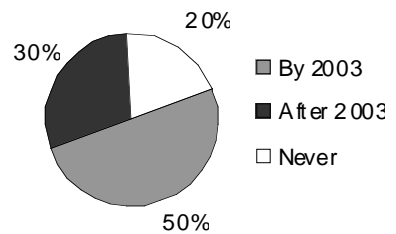
SCENARIO:

Branded fruits and vegetables will account for 50% of fresh produce sales.



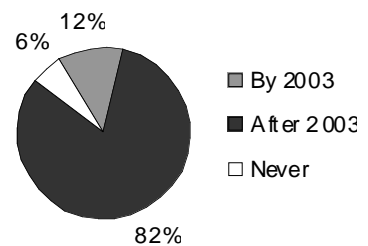
SCENARIO:

In attempts to manage variety more effectively, supermarket companies will reduce SKUs by 25% from current levels.



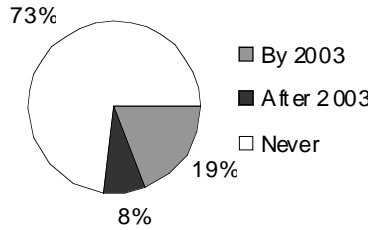
SCENARIO:

Fifty percent of supermarkets will use composting programs for disposing of store organic waste and compostable shipping and packing materials.



SCENARIO:

Consumer demand for environmentally friendly or "green" products is likely to decline from today's levels.

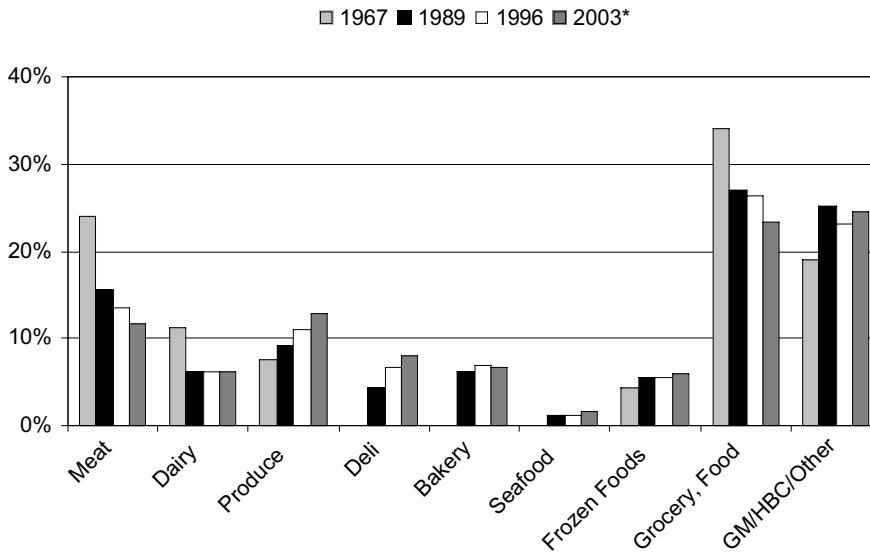


2003. Eighty-two percent of respondents indicated that 50% of supermarkets would use composting programs for disposing of store organic waste and compostable shipping and packing materials, but not until after 2003.

Another seemingly important result is for the only scenario to receive a consensus that an event would *never* occur; 73% of respondents indicated that the consumer demand for environmentally friendly or "green" products would never decline from today's levels.

Supermarket Sales Distribution

As part of the survey, the expert panel was presented historical information on the distribution of supermarket category sales and was then asked to make a forecast of that distribution in 2003. Among those categories forecasted to grow in share of sales by 2003 are Produce, Deli, and Seafood. Meanwhile, Grocery and Meat are among those categories forecasted to decline in their share of total supermarket sales.



SUPERMARKET SALES DISTRIBUTION

Sources:

- 1967
Chain Store Age, 1968
- 1989
Supermarket Business, September 1990
- 1996
Supermarket Business, September 1997

* Executive Forecast

A Food Industry Forecast

The responses from the executive panel of experts provide a valuable forecast for the future of food retailing. However, it is one without form. To aid in the comprehension of such a diverse array of forecasts, we now summarize the previously presented results according to the consensus of opinion provided by the executive panel. First, we present those scenarios with the greatest likelihood of occurring by 2003. Industry decision-makers should consider these scenarios as crucial to a successful business strategy that extends into the next millenium. Second, we present a summary of the scenarios that seem a certain part of the industry's future, although uncertainty prevails concerning the exact timing of these events. Certainly these scenarios could constitute the basis for a long-term business strategy. Finally, we present another look at the forecast of supermarket category sales, with its implications for the future of food retailing.

Four Essential Developments for 2003

ECR and category management will finally come of age. For 25 years, the use of scan data by supermarket companies has presented the opportunity to analyze store performance and operations. However, much of the potential for scanning data has gone unrealized. In the future, more sophisticated data analyses will impact the way a retail company interacts with products and suppliers. Buying and merchandising activities will be commonly backed by hard evidence from sales data, orchestrated by category manager. Further, the efficiencies to be gained from this maturity are not contained within the retail company. Rather, retailers will have equivalent expectations of their suppliers.

Retailers will increasingly command the retailer-manufacturer interface as a function of their increasing technological and analytical abilities. Not only will retailers have increasingly stringent expectations of their supply partners, but they will also make demands of them, policed through the use of scorecards. Of course, with scorecards come penalties for poor performance. Further, the retailer position will only be strengthened if the numbers of SKUs per brand and category are reduced as many portend.

Tough competition will reside among food manufacturers as food retailers strive for an efficient assortment of goods. Food retailers are increasingly data savvy, which will aid their ability to streamline product offerings. Not only will many reduce the number of SKUs stocked per brand, but also will seek to reduce the number of brands per category. In general, smaller manufacturers can

expect to feel the greatest squeeze of these trends and could have difficulty establishing anything beyond a regional or niche presence.

The green revolution will continue to develop, impacting business practices as well as product offerings. The consumer demand for environmentally friendly products will not decline from today's levels; it may continue to grow. Regardless, experts see this as an issue that will not go away in the coming years. Further, business practices must reflect this sentiment. Although likely to take place after 2003, retailers will take on the challenge of responsible resource use through the emergence of practices like composting programs.

Trends Worth Watching

While the previous trends describe the likely state of the retail food industry in 2003, they certainly do not comprise a comprehensive set of possibilities. There are many aspects of the industry that remain to be addressed. To provide a more complete picture of what the future holds for food retailing, we present a list of some of the scenarios that the panel indicated would occur at some point in the future, if not by 2003.

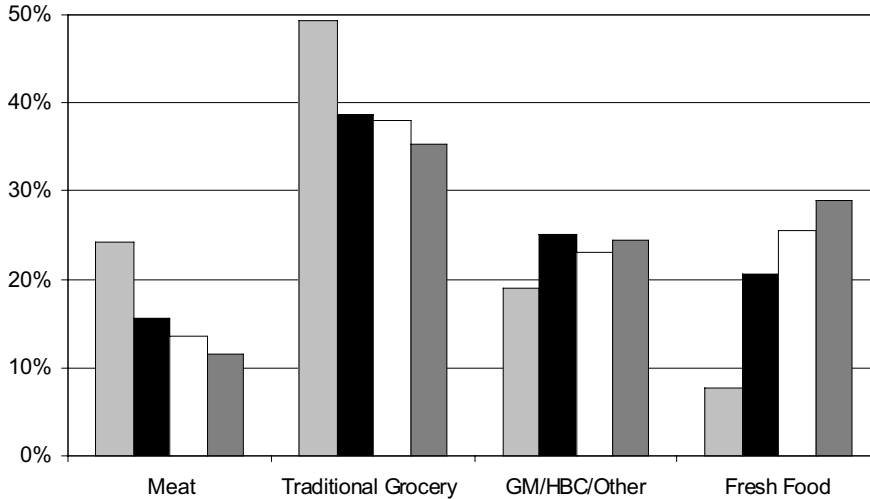
- The consumer direct channel will gain strength in food retailing; ten percent of consumer grocery purchases will involve telephone, fax, or computer orders.
- Individual item pricing will be virtually eliminated by shelf pricing systems like electronic shelf tags.
- Retail concentration will continue. Eventually 50% of retail food sales in the U.S. will be controlled by the top ten food chains.
- Wholesale concentration will also continue. Eventually 80% of the U.S. wholesale trade will be controlled by the top four wholesalers.
- U.S. food retailers will increasingly develop alliances with foreign food companies to permit store expansion outside the U.S.
- Slotting allowances will continue to grow.
- Supermarkets will eventually pose a competitive threat to the take-out portion of the foodservice industry.
- Take-out prepared food sales will eventually account for 15% of supermarket sales.
- The prevalence of brokers and agents will continue to diminish as supermarket companies deal almost exclusively with manufacturers.

- The market share of private label goods will eventually reach 25% of sales.

Category Sales In 2003

A forecast of the distribution of supermarket category sales was presented earlier, demonstrating expectations for growth in certain categories. However, these trends can be further exemplified by comparing the more general categories of traditional grocery (i.e. dairy, frozen foods, and dry grocery) and the more service-oriented fresh food (i.e. produce, deli, bakery, and seafood). Since many supermarket companies are orienting their strategies to the concept of fresh convenient products, we ask, how is this likely to affect the distribution of sales in 2003?

When defining categories in this way, we see the slow but steady decline in the share of “center store” sales of traditional grocery and meat. Meanwhile, these sales are shifting to fresh food, which is forecasted to account for nearly 30% of supermarket sales in 2003. While this report has outlined some clear trends for the near future of food retailing, the time to act is now. We can only wonder what new challenges will arise for the years beyond 2003.



* Executive Forecast

Sources:

1967

Chain Store Age, 1968

1989

Supermarket Business, September 1990

1996

Supermarket Business, September 1997

SUPERMARKET SALES DISTRIBUTION

Appendix

Complete Tabulations of Panel Responses

Table 1. Scenarios Regarding Technological Developments.

	SCENARIO	BY 2003	AFTER 2003	NEVER
		<i>percent responding</i>		
1.	Scanning data will be the basis for nearly all shelf allocation and buying decisions.	76	15	9 ^a
2.	Half of customers will scan their own items at purchase.	15	56	29
3.	Fifty percent of manufacturers' coupons will be electronic.	56	41	4
4.	Manufacturers will deliver several times per week to the largest supermarkets, bypassing wholesale distribution centers.	33	28	39
5.	Nearly 100% of purchase orders will be executed via various electronic systems (e.g. UCS, EDI).	76	24	0
6.	In most leading supermarket companies, "category managers" will be responsible for total category bottom line.	83	15	2
7.	Ten percent of consumer grocery purchases will be made by telephone, fax, or computer orders from either supermarkets or third party providers.	48	52	0
8.	Individual item pricing will be virtually eliminated by electronic (or other) shelf pricing systems.	54	44	2
9.	Frequent shopper promotion programs will replace nearly all retailer coupons.	49	29	22

^a Rows throughout might not total 100% due to rounding.

Table 2. Scenarios Regarding Industry Structure.

	SCENARIO	BY 2003	AFTER 2003	NEVER
		<i>percent responding</i>		
10.	Four major U.S. wholesalers will control 80% of the wholesale trade (33% today).	21	66	13
11.	The top 10 food chains in the U.S. will account for 50% of total retail food sales (about 38% today).	70	26	4
12.	Firms foreign owned or controlled will account for 25% of U.S. food retail sales (now about 10%).	37	54	10
13.	As a result of expanding electronic ordering and larger accounts, the food broker's role will significantly diminish.	55	23	23
14.	U.S. food retailers will increasingly develop alliances with foreign food companies to permit store expansion outside the U.S.	55	41	4
15.	Store size has already peaked; new formats will be smaller but with higher sales productivity.	72	25	4

Table 3. Scenarios Regarding Supplier-Distributor Relations.

	SCENARIO	BY 2003	AFTER 2003	NEVER
		<i>percent responding</i>		
16.	Retailers will increasingly dominate the retailer/manufacturer interface.	80	8	12
17.	The majority of manufacturers will shift from emphasis on advertising activity and deals to emphasis on every day low prices (EDLP).	53	20	27
18.	Shifts to EDLP, Efficient Consumer Response (ECR), and continuous replenishment (CRP) systems will nearly eliminate "diverting."	32	38	30
19.	Slotting allowances will continue to grow despite efficient new product introduction rhetoric.	72	10	18
20.	Most supermarket companies will align themselves with one principal "supplier-strategic partner" for each major supermarket category.	60	15	25
21.	Most supermarket companies will issue formal supplier "scorecards."	76	24	0

Table 4. Scenarios Regarding Competition.

	SCENARIO	BY 2003	AFTER 2003	NEVER
		<i>percent responding</i>		
22.	“Wholesale Membership Clubs” will gradually disappear as supermarkets and mass merchants adopt “club-like” strategies.	20	54	26
23.	Supercenters and mass merchandisers (e.g. Wal-Mart, Kmart) will double their share of retail grocery sales (from today’s levels).	59	31	9
24.	Following the mass merchandisers, most supermarket companies will bypass brokers and agents, and deal almost exclusively with manufacturers.	51	31	18
25.	Limited assortment, price-oriented stores (like Aldi) will present a significant threat to conventional supermarkets.	40	19	42
26.	As fresh food becomes more important to consumers, specialty food shops will make a significant rebound to 10% of food sales (about 6% today).	60	27	13
27.	Direct Store Delivery (DSD) items will account for only 10% of sales (about 25% today).	19	31	50
28.	Take-out prepared food sales will account for 15% of supermarket sales.	38	48	14
29.	One-half of all supermarkets will have restaurants or some sit-down eating area.	24	43	33
30.	Supermarkets will pose a significant threat to the take-out portion of the foodservice industry.	40	40	19

Table 5. Scenarios Regarding Merchandising.

	SCENARIO	BY 2003	AFTER 2003	NEVER
		<i>percent responding</i>		
31.	In-store advertising revenues from manufacturers will account for 10% of retailers' operating profits (about 2% today).	22	43	35
32.	Encouraged by retailers, grocery suppliers will shift relatively more marketing funds to promotions and relatively less to brand advertising in major media.	50	22	28
33.	Retail merchandising decisions will be made increasingly by store managers reacting to local market conditions.	58	19	23
34.	The number of manufacturers' coupons will decline by one-third (from today's levels).	63	35	2

Table 6. Scenarios Regarding Fresh Foods.

	SCENARIO	BY 2003	AFTER 2003	NEVER
		<i>percent responding</i>		
35.	Fresh produce's share of sales will double (now about 9.5%).	26	52	22
36.	One-third of all supermarket companies will operate their own commissaries or central kitchens to service their fresh prepared foods programs.	28	46	26
37.	The great majority of supermarkets will decide that in-store chefs and in-store preparation are too expensive and too inconsistent.	60	25	15
38.	Sixty percent of supermarket sales will be perishable foods (about 45% today).	25	55	20
39.	Taken all together, perishable departments will contribute more profit to overall store bottom line than does dry grocery.	52	22	26
40.	To increase freshness while minimizing transport costs, many manufacturers (especially of chilled foods) will decentralize their production facilities to regional, satellite plants.	35	48	17
41.	Natural, chemical-free, and organic foods will grow to 10% of food sales (1-2% today).	22	57	20

Table 7. Scenarios Regarding Branding.

	SCENARIO	BY 2003	AFTER 2003	NEVER
		<i>percent responding</i>		
42.	New product introductions (almost 20,000 in 1997) will drop by 25%.	30	39	31
43.	Branded fresh fruits and vegetables will account for 50% of fresh produce sales.	37	50	13
44.	Market share of private label products will increase to 25% (now about 17%).	65	29	5
45.	In attempts to manage variety more effectively, supermarket companies will reduce SKUs by 25% from current levels.	50	30	20
46.	Retailers will reduce the number of brands stocked per category.	75	21	4
47.	Retailers will reduce the number of sizes, varieties/SKUs stocked per brand.	83	15	2

Table 8. Scenarios Regarding the Environment.

	SCENARIO	BY 2003	AFTER 2003	NEVER
		<i>percent responding</i>		
48.	Solid waste disposal concerns will reduce the number of manufacturer's coupons distributed by 20%.	19	49	32
49.	Fifty percent of supermarkets will use composting programs for disposing of store organic waste and compostable shipping and packing materials.	12	82	6
50.	Solid waste disposal concerns will cause supermarket operators to reduce the size and/or frequency of best food day advertising supplements.	15	53	32
51.	Consumer demand for environmentally friendly or "green" products is likely to decline from today's levels.	19	8	73
52.	Twenty-five percent of U.S. supermarkets will feature gasoline pumps (3% today).	9	67	24

Table 9. Projections of Supermarket Sales Distribution.

	1967 ^a	1989 ^b	1996 ^c	2003 ^d
	<i>percent of total sales</i>			
MEAT	24.1	15.5	13.5	11.6
DAIRY	11.1	6.2	6.1	6.1
PRODUCE	7.6	9.1	10.9	12.8
DELI	N/A	4.3	6.6	7.9
BAKERY (INCL. COMMERCIAL)	N/A	6.2	6.9	6.7
SEAFOOD	N/A	1.1	1.1	1.6
FROZEN FOODS	4.3	5.4	5.4	5.9
GROCERY, FOOD	34.0	27.0	26.4	23.3
GM/HBC/OTHER	18.9	25.2	23.1	24.4
TOTAL	100	100	100	0

^a Source: Chain Store Age, 1968.

^b Source: Supermarket Business, September 1990.

^c Source: Supermarket Business, September 1997.

^d Respondent projections.

Other Food Industry Publications

The following publications are available at \$25 each. Discounts are available on multiple copies of any individual report. Direct orders to: *Food Industry Management Program, 113 Warren Hall, Cornell University, Ithaca, NY 14853-7801*, or phone (607) 255-1622, or fax (607) 255-4776.

The Promotion World According to Retail, John L. Park and Gene A. German, E.B. 99-01, January 1999.

Structural and Marketing Changes in U.S. Retailing, 1987-1997: Foundation for the Future, Robert V. Weaver, R.B. 98-09, November 1998.

FreshTrack 1998: Marketing and Performance Benchmarks for the Fresh Produce Industry with a Focus on People, Edward W. McLaughlin, Kristen Park, Debra J. Perosio, and Geoffrey M. Green, R.B. 98-08, September 1998. Note: we can only sell this publication to other universities. Other companies should contact the Produce Marketing Association at (302) 738-7100.

A Presentation Guide to the U.S. Food Industry, Geoffrey M. Green, Edward W. McLaughlin, and Kristen Park, E.B. 98-05, May 1998.

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