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FOOD SHOPPER BEHAVIOR CHANGES
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I am very pleased to be appearing before you in 1982 now that we have a major shift in investor attitudes toward this industry. Stock markets have just discovered supermarkets.

This discovery reverses a longstanding climate of investor indifference toward this sector, and well it should. When economic recovery comes it will be led by consumer retail spending and supermarkets will be on the front line of that revolution. But an even more fundamental reason exists for changing investor attitudes. The supermarket industry has been busily repositioning itself over the last ten years for the America of the 1980s and beyond.

Much of this repositioning is due to recognizing and responding to the changing consumer, the title subject of this talk. But credit must also be given to a systematic development program for improving total system productivity, our second topic for today.

Before we begin, let me pause to acquaint you with our association. FMI is the largest and most successful grocery distributor trade association. We are located here in Washington representing supermarkets and grocery wholesalers in research, education, and public affairs. All of the large distributor corporations which spring readily to mind are members, but fully one-half our membership is composed of one-store operators, and over three-quarters of our members are independents (those with ten stores or less). We, therefore, bring together the total industry under one roof, from the smallest operator to the largest.

Turning now to food shopping, perhaps the most important message to deliver today is that America is changing and the food distribution industry must change with her. More than most industries, food distribution is a mirror of the American consumer. This happens in part because we see almost every family in the country at least once a week. But the real reason is that food is such an important part of our total lifestyle, a reflection of our national personality.

When lifestyles change, the food America serves and eats changes. This is the basic reason why the supermarket is now undergoing changes of its own on a scale unmatched since the earliest days of its short 50 year history.

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This industry is evolving with the consumer. Although the history of American industry is to wait until it is too late to make fundamental corrections, the supermarket industry is evolving side by side with the shopper.

Let's take just one small example. The supermarket industry was one of the first in the country to realize the most literal interpretation of the American "melting pot" was a myth. As a result, supermarkets helped lead us in the celebration of cultural diversity which now lends so much strength and richness to our country.

The evolution we have been talking about is an ongoing process. As long as consumers are changing, the industry will continue to change with them.

At FMI, we conduct a continuing series of consumer research studies to understand the forces at work in our society. Two years ago our focus was on nutrition and health. This year it is on the battleground between lifestyles and economic uncertainty. It is this most recent research work that I would like to share with you today.

In February of this year FMI, in cooperation with Woman's Day magazine, surveyed a national, projectable sample of supermarket shoppers through the firm of Yankelovich, Skelly and White. The extent of recent changes in behavior, quite frankly, surprised us.

Three out of four said they had changed their lifestyles within the last year or so. Two out of three said they had changed the food they serve and eat over this same period. That is certainly a groundswell worthy of note.

Perhaps of equal note, we found almost no insulated socio-economic group. In fact, the vast majority of those making significant changes come from the middle and upper socio-economic groups.

Why the changes? Are they for nutrition and health? No, they are not. Saving money is the prime motivator today. This does not mean that health and nutrition concerns have been completely submerged. These concerns are indeed still motivating behavior changes and will continue to do so in the future. It simply means that this current has been overwhelmed by the tidal wave of economic uncertainty for the time being. As an illustration of this point, the single biggest worry in our sample this year was the fear of job loss by the interviewee or someone in his or her family.

Now, exactly what behavior changes did we find in the last year or so? We found:

- less eating away from home at restaurants and fast food outlets
- more eating together as a family
- less of an attitude that serving any food at any meal is acceptable (more traditional meal patterns)
- greater use of unit pricing
- greater use of coupons

- less rushing from store to store to find a bargain (more store loyalty, more one-stop shopping)

- increased purchasing of generics and store brands

- less brand loyalty, especially among those of 50 years of age and younger.

This list raises many interesting points for discussion. However, because time at this session is short, let me confine my comments to the most interesting question: brand loyalty.

Our findings do not mean that brand loyalty is dead. Quality products which deliver real value for the dollar still command consumer loyalty. At the same time, it is clear this loyalty is not what it used to be. This has occurred for a variety of reasons, at least two of them resulting from actions taken by the manufacturers themselves: the rapid expansion of coupons issued, and the heavy use of deal merchandising.

Let's take these one at a time. Coupons have become very popular with consumers. This fact coupled with the very tight competitive market brought on by our recession has caused a virtual explosion in the number of coupons issued. While this has been a good short-run strategy for many individual manufacturers, the long-run effect may be quite different. As shoppers begin to come to the store not with a shopping list but with a hand-full of coupons, brand loyalty is eroded.

A second practice which may well contribute to brand loyalty erosion in the long-run is the heavy use of deal merchandising. Consumers are becoming increasingly used to buying items only when they are on special. In fact, they are increasingly seeing new store formats which carry not a consistent stock of brands, but only those on special price promotions. This encourages brand switching. Once again, we find a very effective short-run strategy which may produce an unintended result in the long run.

Heavy reliance on deal merchandising also tends to move products through the distribution system in big lumps rather than in a smooth flow. This causes a loss of efficiency in both the distributor and manufacturer community. We arrive, therefore, at our second major topic of the day, total system productivity.

Although there is no perfect measure of productivity, the Bureau of Labor Statistics does provide us with a reasonable approximation. According to their data, over the last ten years productivity in food manufacturing has increased while food retailing productivity has actually declined.

Over the last ten years, as the industry has been repositioning itself for the consumer of the 1980s and beyond, it has also been repositioning itself for increased productivity. Taking but a few examples: average store size continues to increase allowing more efficient fixed asset utilization; UPC scanning continues to spread allowing development of a more productive front-end and the accumulation of item movement data; the Uniform Communication System has been successfully pilot tested and released making possible direct communication of purchase orders and invoices among manufacturer, broker, and distributor computers; the use of small computers has exploded to streamline everything from inventory management to analyzing advertising effectiveness; and a joint industry study has just been released detailing recommendations for improving the efficiency of the coupon handling process throughout the entire food distribution system.

The list is long. The point is that the industry is beginning to make real progress on total system efficiency. Much of this progress is due to research sponsored jointly by the major manufacturer and distributor associations. This has been accomplished, as it should be, without government funding and without the creation of an elaborate oversight bureaucracy. There is no better current model for addressing total system productivity than the grocery industry.

Conclusion

All in all, the story of the food distribution industry is a healthy one. By developing a model for addressing total system efficiencies and by constantly monitoring customer behavior, this industry has been able to reposition itself for the 1980s and beyond.

On the customer front, the industry has moved from picketing to partnership. Rapid price increases in the early 1970s caught everyone by surprise, industry and consumer alike. On the heels of the Russian wheat deal and President Nixon's disasterous wage-price controls, consumers actually picketed retail food stores during this period.

In sharp contrast to attitudes during that time, we now find customers increasingly viewing the supermarket as a partner in helping them cope with economic uncertainty.

The industry has come to understand customer concerns and has moved to address them. During the last decade we have seen:

- a rapid expansion of the hiring of professional consumer affairs specialists

- a rapid expansion of generic food products and store brand offerings for the economy minded

- an increasing use of unit pricing to allow more effective comparison shopping

- a growing use of in-store information bulletins giving shopping tips and nutrition information

- a redesign of store formats to better accommodate the special needs and wants of each local market.

Perhaps the most dramatic move occurred with the creation of Food Marketing Institute in 1977. At that time the food distribution industry established itself in the Institute charter with the following words:

"The grocery retailer, from the smallest corner store to the largest supermarket company, is <u>the purchasing agent for the customer</u>. At the same time, the grocer and his close working partner, the grocery wholesaler, are the means by which the farmer and other producers make their products available to the public. In these two functions, the grocery retailer and wholesaler serve to satisfy fundamental needs of everyone in our society." (emphasis added)

By striking this new balance the industry has made real and significant progress. In an economy where the norm of behavior has been for industrial armies always to prepare to fight the previous war, the grocery industry stands in sharp contrast. This industry is busily and continuously repositioning itself for the future.