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**Future global, EU and UK markets
for milk and milk products –
*implications for the UK dairy industry***

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3 The retailer's central role in assessing future consumer demand and supplying market needs

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It would appear that there are significant opportunities for those companies who are prepared to invest in many of the European and world economies, and indeed, a number of retailers and manufacturers have already started to do so. But there are real threats to manufacturers and retailers, both in deciding to take these large leaps forward but also in deciding not to move. As the scale of investment grows, so does the complexity of the factors surrounding investment decisions.

The question can be posed as to whether the fundamental challenges themselves change. For retailers, the fundamental challenge is 'keeping their finger on the pulse' of the customer: for retailers, the customer really is 'king'. This is not a new message but it is where the real power lies in the modern food industry. It can be translated in two ways: first, really understanding the needs of consumers; and secondly, exceeding their expectations. The challenge is the greater because consumers' expectations are continually changing. If, in their local market, product availability was low, the customer might compromise on many product attributes just to get full availability. However, in one store in London on Christmas Eve, with a full availability of fresh turkeys, fresh milk, and Brussels sprouts, a customer might threaten to do a whole shop elsewhere because there were no fresh lemons available. If the dairy industry is to be successful, wherever in the world it markets its products, it cannot afford not to have the customer as the foundation on which to build its business. While there must be a drive towards efficiency, this cannot be at the expense of the customer. Indeed, it is questionable whether real efficiency can be achieved if the industry does not face the customer as a single dairy supply chain.

There are a number of changes that would strengthen the customer in the modern market place, changes which really will have an enormous impact on us all. The first is an abundant supply of goods. This is a force that arguably will continue to grow in importance, particularly as markets globalise. The second is the ease of mobility of customers. It was once the case in the UK market that customers would never drive past one supermarket to get to another supermarket. There is evidence that loyal customers come from a radius of up to fifteen miles to a preferred supermarket. Third, information about what is on offer readily available to anyone who wants it.

The internet now allows one to know what is on offer and at what price almost anywhere in the world at any time. Furthermore, it seems that in the UK economy these changes have been accompanied by a change of attitude. Customers now demand what they want: they are no longer simply prepared to accept what retailers are able to give them.

Understanding the needs of customers is essential nowadays. For retailers, anticipating and responding to what their customers want is the key to success. Retailers now use a range of devices to keep in touch. Loyalty card information enables the relationship with customers to be personalised. Tesco also run customer and staff panels at which managers have to sit down and really listen to what customers want. The task then is to segment the customers into meaningful and manageable groups each with a unique set of needs. However, this relationship has to be highly personal, and the greatest rewards will come from understanding the customer as an individual. The leap is taking on the challenge of exceeding customer expectations. That is what develops loyalty over time, and that is the signal to the customer that they are really understood. Retailers are starting to recognise that their brand images are very complex. They are not just about the products stocked on the shelves, but are about the environment, about the employees and about the service offered. But customer expectations must always be exceeded if loyalty is to be developed.

Innovation will also be a key to success. The challenge lies in the fact that customers' expectations vary and are continually moving forward over time, making clear and accurate prediction a difficult thing. Food and dairy products have long-term trends and short-term fashions like many other industries. Let us consider, for instance, the term local market because this has changed a great deal. At one time, it really was very local, but we have moved on to a new stage as our customers and distribution get more sophisticated. Take, for example, a Tesco store in Leicester. Many customers want to support local industry. They may want milk from a local dairy, local cheese from Leicestershire and may expect to buy English butter. But they may do other seemingly irrational things, like driving Japanese cars. But if it is desired to build the loyalty of that customer it is not for retailers to engage in the debate about the irrationality of their purchase. The industry has to face consumers and face them as a single supply chain, and offer them milk from their local dairy, offer them a fine selection of local cheeses, more than they ever expected to find in stores, and offer them English butter.

As the industry runs these incremental improvement programmes, the dairy supply chain must be clear as to whether it can add cost in exceeding these customer expectations. Customers are arguably clear on their needs. The cost of offering those customers who demand it, the option to select organic or farm-assured products to meet all their dairy needs, may be the same as the cost of delivering their existing selection of dairy products to their homes. It should not be assumed that the customer puts the same value on the two innovations. The customer wants the industry to invest with maximum impact right through the supply chain. If it is not committed to coming together as a single supply chain this will be very difficult to achieve. This may be the key to unlocking billions of pounds of efficiency across

Europe. The industry must ensure that it delights through commercially sustainable innovation. It must face the customer as a single supply chain to meet their needs. The food industry is unique. Food affects everyone. It is a basic human need and a highly personal experience: we consume it, we put it in our mouths and we swallow it. The consequence of this is that customers make very special demands on food suppliers. For example, think about how important food labelling has become, and what that tells us. Suppliers have to be honest with their customers. If they are developing low-fat products that are unsuitable for cooking, they need to make that clear. There may still be a market there if suppliers are honest but if they are not honest they serve only to disappoint and to actually undersell themselves against consumer expectations.

To meet these needs and to exceed these expectations, all parts of the supply chain need to be aligned. Retailers are closest to the customer. So, one obvious way they can help, is by sharing the information they gather. The Tesco Information Exchange, for example, seeks to innovate effective and efficient information flow through the supply chain. This information about customers and their needs and expectations must drive the whole industry. Responsiveness, therefore, and not prediction, is the answer. The trick will be for the industry to be able to respond continually in the most appropriate way at any particular time. Suppliers cannot make the rules of the game. If UK customers want farm-assured cheese but are not prepared to pay a premium, and customers in Walsall just want cheese as long as it is available all day every day, then this is what the industry must strive to deliver. If, the following week, the customers of Walsall have cheese available all day and every day and they then want Polish cheese available all day and every day then this is what the industry must strive to deliver.

'Partnership' is a much used and abused term, but partnership is the way to move forward onto international markets. The coming together of the whole dairy supply chain and the sharing of information through the chain, will enable better informed and better aligned decisions. The common goal will be understanding customers' needs on both a local and an individual basis, and continually exceeding their expectations. The customer is an ever-changing and ever more powerful influence. Because of this it cannot be predicted that the opportunities for any partnership alignment today will not present the threats of tomorrow. The industry's final challenge is to become better at listening to one another, and managing today's very complex and demanding partnerships.

To conclude, customer power drives the industry and the companies in it. But companies cannot afford to confine their view to the UK. Tesco, for example, now operates in five new national markets with stores in Hungary, Poland, the Czech Republic, Slovakia and Ireland. However, the domestic market remains at the centre of operations and domestic suppliers are vital to success.