



# digest

*Excerpts from RetailWire.com news discussions.*

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*What dollar stores are teaching retailers...*

*Trader Joe's unique formula...*

*Ways small grocers are standing tall..*

*How slotting fees affect innovation...*

*All part of this common thread of news and discussion from recent RetailWire archives.*

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## *Foreword*

### **On 'Differentiation'**

By Rick Moss, President - RetailWire

In a recent discussion on RetailWire.com entitled "Wal-Mart Portrayed As Evil Empire, Again", many of the commentators agreed with the contention that the company is imposing downward pressure on wages that extends beyond local economics to supplier company workforces and, consequently, threatens to deteriorate the lifestyles of average, hard-working citizens EVERYWHERE... Well, anyway, the list of grievances is as endless as the amount of hand-wringing that goes on about Wal-Mart's competitive influence.

However, not everyone bought into this mode of thinking. As our resident sage Gene Hoffman put it, "In our free enterprise system, NATURAL FORCES WILL ALWAYS PREVAIL ... and Wal-Mart is teaching corporate America an object lesson."

What's the lesson? In a word, "DIFFERENTIATION." On RetailWire, we have a BrainTrust of over 60 of the retail industries' greatest minds churning through issues on our site every day from as many varying viewpoints. But we can say, almost uncategorically, that everyone agrees on one thing: DIFFERENTIATION is the way to compete effectively...whether with Wal-Mart, Costco, or the dollar store that just opened at the other end of the strip mall.

In this edition of the *RetailWire Digest*, we've pulled some particularly provocative commentary from our archives of over 1,500 online discussions. We cover price sensitivity, slotting and...everyone's darling...Trader Joe's, all related to the common question -- how do I differentiate my operation to stay vital in the hearts and minds of my customers.

Hope you enjoy the discourse. Please join us on RetailWire.com as often as your busy day allows. And let us know how YOU feel on these subjects. "The Power of Collective Thinking"...it really works.

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## *Differentiation Discussions*

### **Slotting Fees Retard Differentiation**

By George Anderson

Differentiation, the buzz word du jour in grocery retailing, is being hampered by the supermarket industry's reliance on slotting allowances, according to *KPMG's Consumer Markets Insider*.

Industry insiders and analysts, including Bruce Barren, chief executive officer and president of EMC/Hanover, don't see grocers giving up slotting fees or specialty food manufacturers paying them even if they had the funds to do so. The resulting Catch-22 situation may only be resolved, according to Barren, if large food manufacturers that can afford the fees acquire the smaller specialty food companies.

#### ***Moderator's Comment:***

Have slotting fees become a serious competitive disadvantage? What needs to be done to fix the supermarket industry's procurement practices?

Is there a 12-step program for grocers? We're certainly not the first to suggest it, but perhaps the industry should go to a consignment model. Manufacturers ship product to stores, which pay only after sales are made. Grocers' financial risk due to product failure is reduced and manufacturers can put dollars to marketing efforts that drive sales more effectively. - **George Anderson - Moderator**

#### **Comments:**

I don't know if 12 steps is enough. They just have no clue. Their revenue is highly dependent on the fees, and until they learn how to sell merchandise at a profit, things will never change. Part of that is giving consumers a choice and now most chains offer no choice. Same stuff, same price. They survive based on location. It's not a very well focused business and not many (if any) are willing, or see the need, to change. - **Marc Bodner - BrainTrust**

I like George's idea. The difficulty is that with razor-thin margins, prices would have to be higher on these items to compensate for the fee. And honestly, when I pay \$20+ for a bottle of olive oil, I'm just as comfortable at a specialty store and I will shop a \$1-2 difference.

I believe that retailers need to get over their addiction to slotting fees on every item in the store and accept the fact that, in order to differentiate themselves, they need to take some chances on new products in order to create some differentiation (and provide a more interesting shopping experience for their shoppers).

If they don't trust their own judgment, 1. they shouldn't be in the business; 2. there are plenty of sources for new product news -- heck, Phil Lempert is on the Today show once a month it seems talking about what's new.

The risk involved in trying out a new product from a small supplier is too small for retailers to ignore the upside. - **Karen Kingsley - RW Commentator**

Ideally, I would like to see a retail business model that does not rely on "slotting fees"...oh that's right there already is one - Wal-Mart! As we all know, the unraveling of slotting fees is not so simple. Moreover, those companies that rely on slotting fees in a disproportionate fashion are paying for this behavior in the marketplace; i.e. Safeway, Albertsons, Kroger, Ahold.

Those retailers that focus on selling the right item at the right price, are winning the battle for the customer; i.e. Ukrop's, Wegman's, Marsh, Price Chopper and Wal-Mart. Yet, CPG companies can not expect retailers to enhance their assortment portfolio without risk. Scan-based trading on high velocity items negatively effects the retailers cash flow. - **Frank DiPasquale - BrainTrust**

Technology is certainly starting to help with this issue, and is one of the primary reasons Wal-Mart doesn't play the trade dollars game like other retailers. The combination of sophisticated business intelligence tools with business practices like demand chain management, long-range forecasting and assortment optimization can deliver more "sure bets" for retailers, which lowers their risk and should therefore lower or eliminate the up front money they require from vendors. While the transition could be a testy period, and the capital investment in the new technologies can be steep, the first retailers to pursue this strategy will definitely have an advantage over subsequent competitors.

**- Ron Margulis - RW Commentator**

Interesting idea. Let's get our "big" supplier "partners" to buy the smaller companies because we know they will be happy to pay our slotting fees so that we can then satisfy our customer's need for new or different products. Seems like more of the "same old" thinking that got us into this cycle to begin with. Believe it or not, there are successful retailers out there who don't rely on slotting fees but rather evaluate new items on their merit. But that takes a different mindset and skillset than "let's make a deal". It's tough to pull that needle out when it's been there so long. **- Lee Dale - BrainTrust**

It seems that lots of supermarkets view competition as keeping up with the competition rather than leading the pack. As long as they can provide customers with the same old same old day in and day out, they can't see any real need for change. Or improvement, heaven forbid. And as long as they can keep their customer base, why bother trying to acquire new customers? But as we have frequently said on this site, there are lots of consumers who are demanding new products, better quality, interesting shopping experiences, customer service bla bla bla. Nor are they entirely price conscious as long as they believe they are getting value for money. We have also discussed, regularly, the increasing popularity of small, local and specialist grocers. Is anybody out there listening to us? We are listening to consumers (and I think I speak for most of us) but are we just whistling Dixie?

**- Bernice Hurst - RW Commentator**

Why does everyone think that specialty food manufacturers don't pay slotting? Specialty food distributors certainly get slotting for stocking the products. These are big companies often controlling distribution in the whole state. They don't take on a new product because it is worthy, believe me.

**- janm**

As a general merchandise vendor, we find slotting fees exorbitant along with reclamation fees, required brokers, reset fees, etc. Our products are more profitable than food products but the merchandise turns are not nearly as high. Still, we have to pay the same rates. Grocery and drug classes of trade are less than 15% of our total sales with the balance in specialty stores, mass discounters, and clubs which have none of these costs. The slotting fees allow up front bottom line profits as stated by other commentators. But, we find that too much emphasis is put on vendor subsidies during product and vendor selection. Although we enjoy the distribution, we constantly have to look at the increasing costs of doing business in this arena. **- Roadster**

I think the premise is wrong. Overall, the effect of slotting and other trade moneys is to create TOO MUCH ASSORTMENT, not too little. Many items which should be discontinued stay in distribution, because merchants are incented on the amount of trade funds they generate. The consumer demand for many items does not justify their shelf space. This is one of the causes of out-of-stocks on fast-moving items. The important items do not get adequate shelf-space. **- BrandManager**

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## *Differentiation Discussions*

### **Trader Joe's Does More With Less**

By George Anderson

The average Trader Joe's store carries approximately 2,500 items compared to the 25,000 or more found in other stores. It operates stores, in some instances, that are barely larger than a good-sized convenience store. How then does this 199-store chain generate billions of dollars in sales?

It concentrates on offering unique specialty and natural food items, mostly under its own store labels, at prices at or below mainstream supermarkets.

Trader Joe's chief executive officer and chairman, Dan Bane described what makes his company different to the New York Times. "It's a company that is kind of a loose-tight company. We're very controlling and tight about the cost structure and processes; we're very loose about how we want the stores to run."

Knowing what makes Trader Joe's successful and duplicating it are two very different things according to Gary Giblen, research director, C.L. King Associates. "It's really a world-class format. It's not that easy to copy because they have thousands of vendor relationships all over the world. That takes some skills to develop."

#### ***Moderator's Comment:***

Why aren't there more Trader Joe-like companies in food retailing?

Judi Brosnan, a Trader Joe's customer, says it the human touch that differentiates the store from all others. "It's much more personal. They'll (crew members) recommend stuff. Like: 'Oh, did you try this? If you haven't tried it, go get it. Try it, you'll love it.' " - **George Anderson - Moderator**

#### **Comments:**

How often do your readers address the subject of best practices? Trader Joe's is a textbook case of 1) listening to the customer and acting as their advocate; 2) based on customer feedback, creating a distinctive brand identity, competitive positioning and personality; 3) providing a unique (and actually enjoyable) shopping experience; 4) providing a much higher level of friendly customer service; and 5) consistently delivering on the promise. No magic...no revelations...just a matter of studying those techniques and tools that have made so many other consumer-centric brands and marketers successful. TJ's is a great example of fundamental marketing discipline: listen, learn, implement, listen again, refine, and continue to build customer acquisition, loyalty and brand equity. Now, if I could only find a parking spot in my local Trader Joe's! - **Michael Aarons - BrainTrust**

The thing that most strikes me as unique to the way in which Trader Joe's operates - in addition to the high levels of customer communication and retention already indicated - is their efforts to find and build relationships with good suppliers. It seems that the effort they make in finding them in the first place is re-inforced by their willingness to continue dealing directly with them to maintain a high level of quality with an equally high perception of value for money i.e. NOT just cheap but worth what they're charging. This then impacts on the relationship with customers making sure that everyone benefits and has a bit of fun along the way. I wish I lived near a Trader Joe's...

- **Bernice Hurst - RW Commentator**

Trader Joe's continues to build its business based on some very fundamental points, focused against the consumer, and importantly, micro marketing the business and each of its outlets to the neighborhood.

The key is the philosophy of the owner and CEO, and the culture that he has established for his employees and consumers. Most major supermarkets have forgotten the consumer and proper culture for the employees to meet the Wall Street expectations. - **Stephan G. Kouzomis - BrainTrust**

"Why aren't there more Trader Joe-like companies in food retailing?" Oh they're coming. Have faith in the New Blood generation. Hearts just haven't been fired and inspired. Based on a sullen image, the retail industry still suffers.

What's needed is a powerful, exciting, theatrical branded campaign delivered to post-secondary institutions. When well executed, profitable, and exciting stores are unleashed before the public, it's only a matter of time before word of mouth spreads. - **Daz**

Trader Joe's does a number of things that are difficult to copy:

1. Procurement of non-national brand products exclusively
2. Not using trade promotion dollars, but getting lowest cost of goods and being vendor efficient
3. Creating a culture that prizes learning, encourages cross training so the work doesn't get boring, encourages employee's sharing ideas with management
4. Being willing to not be plain vanilla... not being the right place to shop for everyone... "intelligent loss of business in the name of clearer differentiation"
5. Mastering the use of small store size, whereas many supermarket retailers are far larger and they won't be inclined to try to copy TJ's
6. The constant re-setting and replacing of products creating a treasure hunt atmosphere... too inefficient for many other retailers to attempt to pull off
7. They have pulled off a seemingly difficult combination of value--high quality private label and specialty products at low price.

I'll stop there. As I've mentioned in my Strategic Report on Wal-Mart, Trader Joe's is one of the few retail formats that is "Wal-Mart-proofed." - **Art Turock - BrainTrust**

If you specifically are looking for success in companies that carry 2,500 items or less as the mark of comparison, then there are few. However, if you look for the inventive, inspiring, theatrical, innovative - then sure there are others to compare to as leaders.

The problem is there is no silver dagger that will lead the conventional to success. The conventional is stagnant. The innovative may be found, you just have to look. For those of us who write here, they're quite well known, albeit regional...Wegman's, Dorothy Lane, Busch's, AJ's - you fill out the rest - they are there. The thing that the larger chains are looking for to show the same result is limited. The ability to execute this type of store has been limited to 'size' in some way shape or form. Even Starbucks is limited and focused.

Meijer announced this past week that they have hired a top designer to create a make-over of their look. That's one way. There are many. A smaller chain in Ohio announced they will try a smaller format. Innovation is out there, although somewhat limited, it is there. The key factor is that it works when it is innovation and less of imitation. - **Scanner**

I often rant about how supermarkets must focus more on customer relationship value and less on price. TJ's wins by bypassing that advice. It doesn't get precious about individual relationships or worry about segmentation. Instead, it aligns against the segment of value-conscious, quality-aware food shoppers and serves them well through superior, focused merchandising. Quite an object lesson for other retailers of all stripes: Pick a thing to be. Be best at it. - **James Tenser - BrainTrust**

We need to remind ourselves from time to time how conventional supermarkets make money: Manufacturer trade dollars, not retail profits. And as such, these trade dollars can be reported on a number of different lines in an annual report (at least until the government decrees where this income must appear).

Trader Joe's is a totally different business. They're not nearly as dependent on manufacturer dollars, because they deal with far fewer of them and many are small suppliers with little or no money for slotting, ads, etc. (Can you imagine Franzia paying slotting dollars to support "Two-Buck Chuck" wines?) For this and other reasons, comparisons between conventionals and TJ's are moot.

- **Michael Banks, Ph.D. - BrainTrust**

Trader Joe's is quite a phenomenon for all the reasons mentioned so far herein. Several Key Points:

1) They seek and offer a very interesting and often unusual array of food products that most would be hard pressed to find and even harder pressed to find at the prices they offer. They are one of the few specialty food retailers that have established the presence and reputation that TJ's has.

2) Their ability to pick products based on quality and not the latest promotion or slotting allowance yields a focused assortment of excellent quality.

3) Being from the food manufacturing community, they are definitely on our radar of companies we want to work with. The point brought up elsewhere is very accurate. They are very loyal to their suppliers. By aligning with their suppliers in the truest sense of the TJ way, they procure high levels of cooperation from their suppliers. Which brings up point 4.

4) Balance - Trader Joe's truly strives for Win-Win in all of their relationships: Customers, Suppliers, Employees, et al.

What's not to like? A great company that deserves respect, but I would bet they would rather stay out of the spotlight and keep on keeping on. - **Brad van Dam, President CEO, Marich Confectionery Co.**

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## *Differentiation Discussions*

### **Why It's More Important Than Ever Not to Be Overpriced**

Special Commentary by Bill Bishop, President, Willard Bishop Consulting

Price continues to be an important element in the shopper's value equation, but it's not always clear what this means in today's retail environment.

One competitor in every market can grab the low-price image, and those remaining must find other ways to differentiate themselves that will yield a sustainable market share.

It's becoming increasingly clear that to win a meaningful share of the business, you can't be overpriced, regardless of your basis of differentiation within the total value equation. This is a real challenge for most companies. One step in meeting that challenge is to better understand the importance of not being seen as overpriced, specifically as it relates to current household income.

Looking at the most recent U.S. Census information, the median household income in real terms dropped 2.2 percent from 2000 to 2001 to a level of \$42,228. This is no great surprise given the current recession, but it's somewhat startling to realize that this translates into the \$102 billion that's no longer available for spending in the economy.

While these facts help explain the current big picture, another interesting image appears when we look at change in income among household segments over the longer term. (Visit [www.bishopconsulting.com/WBC16.cfm](http://www.bishopconsulting.com/WBC16.cfm) for more details.)

Focusing on the change from 1971 to 2000 for the lowest and highest 20 percent income households in the U.S. population, we find that:

- The lowest 20 percent experienced a growth in total income of 107 percent.
- The highest 20 percent experienced an increase in total income of 170 percent.

So, it's clear that income growth has been strongest among the highest-earning households. As a result, the highest 20 percent earning households now capture 45 percent of total household income.

What's important to consider for pricing strategies is that 80 percent of the households in the U.S. experienced a drop in their share of income. This big group is likely to be more focused on price than they used to be as they maintain their standard of living.

What does this mean to companies that are not the low-price leaders in a given market?

- You can't afford to be seen as being overpriced because at least four out of five households are probably focusing now more than ever on price. While these shoppers may not be motivated exclusively by price, they will likely be less attracted to products they see as overpriced, regardless of other product features.
- Only one in five U.S. households have experienced above-average income growth, but many of them will be more price-sensitive than they used to be because of the drop in the stock market. Who wants to pay "full price" when your personal wealth is declining?

The growing popularity of dollar stores, limited-assortment grocery stores, and supercenters speaks to the advantage and appeal of not being overpriced. Traditional supermarket retailers and manufacturers will need to develop similarly meaningful responses to sustain business growth in the years to come.

#### **Moderator's Comment:**

How do food/drug combo store operators remain price competitive in a market that includes dollar stores, limited-assortment grocery, supercenters and warehouse clubs?

Generally speaking, they don't and probably won't. Personal wealth is declining and food/drug combo stores continue with a purchasing system that adds costs through a variety of upfront money schemes. At the same time, competitors are focused on keeping the buying process simple and getting the lowest bottom line cost so they can sell for less. - **George Anderson - Moderator**

**Comments:**

I think a key thought here is to not have the image or be perceived as being the highest priced or over-priced. Unless it has changed, the average consumer has no idea what they are paying for most of their grocery items. There are a few price sensitive items that they watch, such as bread, milk and carbonated soft drinks, but the consumer that knows price comparisons beyond that is in the minority. Wal-Mart has been very successful in creating an "overall low-price image"; the others must be certain that they don't acquire the "high-price image". - **Art Williams - BrainTrust**

WBC is on to something with its focus on retail pricing and price image. The reported analysis of US Census data on income trends only serves to underscore the significance of this area to retailers.

Despite recent declarations by the White House that "the recession is over," there is evidence that Americans are still feeling the economic pinch. Layer on the deflationary influence of Wal-Mart's EDLP pricing, and the typical food, drug or mass retailer faces pressure to cut margins to compete.

Purveyors of retail revenue management software solutions have stepped in, offering a magic bullet that helps retailers to pad prices slightly on low-awareness items, but the influence of such activity on long-term price image remains barely understood. In other words, too much playing with price may harm a retailer's standing with its shoppers over the long haul, with potentially damaging consequences. Kudos to Bill and WBC's Jon Hauptman for beginning to raise and study these issues. I believe they are of central importance to modern retailers. - **James Tenser - BrainTrust**

Consumer price image is based on less than 2,000 items in a store. Wal-Mart is not the lowest price retailer, which is why it had to change its advertising slogan a few years ago. Supermarkets that price product below Wal-Mart are only throwing money away. Other factors that are important are location (convenience) to the customer, target market (the day of everyone is over) and positioning (services, selection, and décor). Wal-Mart does not target every consumer, so why are supermarkets? Until supermarkets can create a treasure hunt (like dollar stores) or more exciting shopping environment, they will continue to lose market share, unless they target a specific customer segment and support such. - **Frank Dell - BrainTrust**

Embedded in every one of these remarks is the notion that the real determinant is the value proposition. Trader Joe's (to keep banging the same drum we always do) offers orchids at a great price. I would be hard-pressed to say there is a single person on earth who "needs" an orchid, and yet, it's a great value. So my perception of TJ's is that it's a value spot, even when I buy extravagantly.

Target does this well as well. I don't think there's much advantage to playing the price war. I think the only winners are those who play the value war. - **Karen Kingsley - RW Commentator**

I recently did a price audit in a Wal-Mart Supercenter and an Albertsons across the street. Albertsons was 28% higher. Wal-Mart was probably doing close to a million per week in grocery while the Albertsons was well under \$200k and dropping. This was a blue collar area, so they were going after the same shopper. To the 80% of us that are poor - price is our primary reasons for shopping.

Did you ever see an Aldi close because it couldn't do enough sales? I haven't. I don't think I've ever seen a Wal-Mart close either. But I've sure seen my share of high priced conventional stores bite the dust. No one expects chain stores to have the same pricing structure as Wal-Mart but consumers do expect them to be within 10-15%, so long as they offer quality, service, and convenience. Unfortunately, many chain stores are too arrogant and greedy and end up with 50,000 sq. ft. stores doing \$150,000 and pretend they have no clue how Wal-Mart (along with Aldi in the parking lot) are doing so well.

I see Supervalu's Save-A-Lot program growing like a weed and high priced/low service chains like A&P and Albertsons completely shutting down entire divisions.

We must give the consumers more credit. Target thought all they had to do was slap the word "Super" in front of their name and add a full line of groceries. The consumers weren't fooled and most Super Target grocery departments are at low KMartesque levels.

I think many of our old, tired, publicly held chain stores will disappear over the next few years. They are fat, slow, greedy, and slaves to Wall Street. They are like Boris Karloff's mummy trying to run the 100 yard dash. They can't compete on price and they can't compete with the high energy service levels of the privately held regionals like HEB, Hy-Vee, Publix, Roundys, Wegmans, and Ukrops. -

**David Livingston - BrainTrust**

The recent spate of home refinancing has reintroduced considerable extra dollars into the economy. I have no way of knowing how the choice to refinance their home synchronizes with a family's placement in Bill's "growth in total income" continuum, but I'd bet that the majority of them are not among the highest-earning households. I'd also guess that the total dollars reintroduced into the economy from home refinancing takes a sizable bite out of the \$102 billion that supposedly is no longer available for spending.

So when considering the discretionary income of a household, the addition of borrowed dollars to earned dollars creates a different picture of spending opportunities than that in the study.

Without the underpinning support of the idea that there is \$102 billion less to spend in the economy, is the study's assertion that it's more dangerous than ever for retailers to be "seen as being overpriced" valid? I had trouble making this leap of logic based on the evidence provided, but intuitively I agreed. Yes, it's reasonable to assume that when there are fewer dollars to spend, retailers perceived as being overpriced will lose sales. But if the dollars available to spend aren't so scarce, is it as easy to make this intuitive leap? The point is moot, I believe. In any economy, retailers perceived as overpriced will miss out on unit sales but perhaps make up the dollars by charging more. That is, if they are indeed overpriced and not just perceived to be so. And in any economy, it's the job of every retailer who isn't the low-price leader (of which there is just one per market, as the study asserts), to build the perception that they are fairly priced, not overpriced.

**- Michael Banks, Ph.D. - BrainTrust**

I recently read an article about Champps restaurants cutting portion sizes and raising prices. I still am fascinated by corporations that have so blatantly lost sight of their customer base. Value in the eyes of the consumer is getting more for less, but in hard economic times corporations stress to get every penny out of consumers.

Consider the consequences of Champps actions: The cooks in the kitchen notice the decreased portion sizes and tells the waitress about it, who happened to notice the increase in price. Not understanding the dynamics which led to the decision to cut size and increase price, the server becomes critical of the restaurant thinking the move was motivated by greed. If your staff thinks you are greedy, they question what will be next. You lose the support of the people who make the first impression on your customers and, without their support, you are dead in the water.

Corporations and managers alike have two important customers to consider: The buying public and the employees who serve the buying public. We often do not think of employees as customers, but they are. You must service your employee base and keep them aware and supportive of your actions in order for them to translate that information into sales opportunities. - **Jair Sweatman, COO, JSE Technologies, Inc.**

## *Differentiation Discussions*

### **Are Dollar Sections Producing Big Bucks?**

By George Anderson

If imitation is the sincerest form of flattery, then retailers such as Dollar General, Family Dollar and others must feel highly flattered as retailers from A&P to Wal-Mart test dollar store sections within their traditional formats.

According to *USA Today*, sales at major dollar store chains was up around four percent while department stores, mass merchandisers and supermarkets either had sales fall-off or increase only slightly.

Howard Davidowitz, chairman, Davidowitz & Associates says there is no mystery to the consumer acceptance of dollar stores. "Customers love extreme value," he said.

#### **Moderator's Comment:**

Does the rush to open dollar store sections amount to an overreaction on the part of retailers seeking to blunt competition?

The growth of dollar stores in recent years has been nothing short of meteoric. Perhaps that explains why recently we've been finding ourselves wondering when the dollar store bubble will burst.

- **George Anderson - Moderator**

#### **Comments:**

I question how much the dollar store trend has to do with value or extreme value. My observations see two other factors at work. First is the treasure hunt -- something new or different not found in the customers frequent shopped stores. Second is the low transaction value. The United States has one of the highest standards of living. To expend a dollar is of no consequence if the purchase turns out to be junk. Just as food-at-home now represent only 6% of disposable income, a dollar store purchase will not be felt in the household budget. When shopping is fun and interesting, consumer visit the store. [Frank Dell - BrainTrust]

The sales folly that retailers regret the most is the one that they didn't implement when they had the opportunity. So they jump on the band wagon of the moment. One such band wagon at the moment is dollar stores. It's true that "Customers love extreme value" but when everyone offers "extreme value," it no longer is "extreme value" and no competition is then blunted. That's when retailers move to the next merchandising hula hoop ... whatever that will be.

- **Gene Hoffman - BrainTrust**

It's fun, it's incremental, and it may keep some people out of dollar stores to spend more time at Wal-Mart. That's it, and that's why it will now remain. - **Marc Bodner - BrainTrust**

Not surprising to see Wal-Mart testing the waters. They watch Dollar General more than some might suspect and with good reason. Dollar General built their business in rural southern and midwest towns with little competition, serving low income (OPP) customers, living from paycheck to paycheck. Sound familiar?

Another Wal-Mart test to gain insight and understanding. If it's a solid business, we'll see it expand. If not, it goes the way of used car sales. - **Lee Dale - BrainTrust**

I can imagine the looks on the faces of the buyers for the supermarkets interested in adding "dollar" sections: You want me to what?" The cold truth is that buying the kinds of items found in dollar stores requires years of practice and special contacts in an off-the-beaten-path network of wholesalers, importers, and close-out specialists. It will not be easy for buyers/merchandisers/category managers at conventional supermarkets to please their bosses on this one. Especially if they want these new sections "yesterday."

Additionally, there's just not enough product to go around -- at least in the short run. In Pittsburgh in the early 80s -- during the recession -- "generic" canned goods became very popular. First the Aldi-type stores offered them, and then the conventional supermarkets got into the game. Low-grade product became unavailable for canning with the generic labels, and the product was eventually upgraded to "fancy" because that's all that was left.

**- Michael Banks, Ph.D. - BrainTrust**

Every shopper who comes through your door could have other retailing experiences very easily. The Dollar Store is just one of those potential experiences. The successful retailer considers the panoply of competitive experiences and sees that some of these can be catered to in their own store. Study the Dollar Store experience, study the Wal-Mart experience, study the drug store experience, study the C-store experience. Each of these distinct shopping types should be targeted specifically and intelligently in the supermarket. Then the supermarket becomes a symphony of possibilities for the shopper, rather than just a BIG, overwhelming experience of its own.

**- Herb Sorensen, Ph.D. - BrainTrust**

Everyone is right and I agree. Recently, I was in a Save-A-Lot. I was in need of a lighter adapter for my cell phone. The phone company charges around \$25; in Wal-Mart they are around \$8, and Save-A-Lot has them for \$1. I bought 2. More and more people are learning a lesson. Stop in the dollar store first - what you need might just be in there. **- David Livingston - BrainTrust**

Usually an optimist, I find myself thinking this bubble is nearly about as big as it can get before it will pop. Many are leaping into the game including big names like Kroger. However, once diluted things rarely maintain their original excitement. I can go for a while, but not long. Greater opportunity lies in other forms of differentiation and less in duplication. **- Scanner**

The dollar department concept sounds suspiciously like the "club sizes" departments that supermarkets instituted in the early 90's to counter the apparent threat posed by Costco and Price Club. It didn't last in large part because the sourcing economics of the club format are fundamentally different than those of supermarkets. Also, consumers weren't really looking for the club store experience inside their supermarkets. I suspect similar factors will soon become apparent with respect to the present experimentation. **- James Tenser - BrainTrust**

I am afraid that this dollar section will be just another passing fad that will distract the grocery channel from what it really needs to focus on. Retailers will throw up a section, just to say "We have that", but do it poorly. That same time, money and manpower could sure be spent better enhancing the consumer experience in areas that should be the grocery channel's strength. Improve and build on your own core competencies, don't just chase the other guy's niche.

**- AgentObserver**

I really wonder if grocery and Wal-Mart shoppers are going to take the additional time to go to a separate section of the store for one dollar items. I also wonder if Wal-Mart is better off with shoppers spending part of their store time in a dollar section, instead of browsing higher price items like cd's, dvd's and other hobby type items that bring more money. Same amount of time for fewer dollars. Does every retailer really have to carry everything? **- MJust95531**

## *Differentiation Discussions*

### **The Same Approach to Being Different**

By George Anderson

In his editorial in the July-August *Refrigerated & Frozen Foods Retailer*, Warren Thayer describes a recent trip to Chicago that included some quality time in his hotel room flipping through store fliers in search of a grocery operator who was trying to find points of differentiation that didn't begin and end with price.

After searching diligently, Mr. Thayer discovered there was nothing to discover. Every chain took a "lower prices" angle to market their business.

#### **Moderator's Comment:**

If price is not the sole or even main point of differentiation, why do most supermarket ads primarily focus on how low their prices are? How can grocers move beyond this in their advertising and promotional programs?

Ultimately, it comes down to brand building, which takes time and commitment. In the retail world of fast nickels over slow dimes, few have the patience and discipline needed to accomplish this.

- **George Anderson - Moderator**

#### **Comments:**

There are really two questions here. First, it's not that price isn't a valid form of differentiation, it's that -- by definition -- it is not possible to be differentiated any time all the major competitors adopt the same strategy. So, if Warren had found all the Chicago market operators competing on say service, the same problem would exist. Price could be a primary strategy for competitive differentiation, but only if other competitors pursued other strategies. Now, as to why everyone adopts that strategy, I think the answer is relatively simple: it worked for the first 65 years or so of modern supermarketing. The trick is it didn't really work because it was so clever, but rather because the market kept expanding. No, the consumer market is so preconditioned to think in terms of item and price, few retailers are comfortable moving away from it. But there are several who've managed to overcome that discomfort. Even in Chicago, I'm not sure you could claim that Sunset Foods and other retailers are competing exclusively on price. Look around. There are people not playing the price game. In the end we'll call them the survivors.

- **Ryan Mathews - BrainTrust**

Price by tradition has been the main feature in supermarket flyers. Manufacturer dollars support this marketing...consumers who review these ads are looking for what's on sale...and most retailers aren't exactly thinking outside of the box. So we have what we have always had -- supermarkets defining themselves in print as places to buy necessities based on price.

What about fun? What about nutrition? What about solving the problem of assembling a wonderful meal -- when you're tired -- that's healthy in under 15 minutes? What about solutions? Some retailers are "getting it." Most are stuck in this as it's how it has always been done.

In general, retailers need to examine what they believe they stand for and assess if their marketing message supports their vision. If price is what defines your business, then this price-centered approach supports your mission statement. But if you define your mission to be all about service and your ads read price...it's little wonder consumers expect "your" store to compete with Wal-Mart and all others on price...therefore no differentiation. - **Karen Ribler - BrainTrust**

A point to add to Ryan's opinion --

Chicago is a high-low market, so consumers have long been conditioned by supermarket operators to look for bargains in the store circulars and to buy from sale to sale. Also, Jewel and Dominick's have long battled for the crown of price leader. This limits their options, as well as those of some of their competitors.

And, a point about Warren's experience --

Supermarket circulars vary widely from week to week, and Warren may have hit a week without a traditional seasonal theme. From my days in reviewing ads for our stores, I know that the circulars for at least 26 weeks have themes and the other half were based on price and merchandise. - **Ron Margulis - RW Commentator**

Let's be realistic here. It may be that consumers want more than price as a differential when determining their loyalty to a particular store, but it is price that is most likely to get them through the door in the first place. First you gotta get them, then you have to work at keeping them.

- **Bernice Hurst - RW Commentator**

The macro issue is branding, and creating a strong point of differentiation. But that is chasing after fast nickels vs slow dimes.

The micro issue is the content of the circulars. Yes, historically chains have always focused on price. That doesn't make it right or prudent. To cite the over worn example, Trader Joe's fliers talk about ingredients, and recipes; they have articles. I read it -- or some of it -- I don't even glance at the others on their way to the garbage. Stew Leonard's also offers more info. It is possible, and profitable, to break the paradigm. Too many people are just too lazy and afraid to do so.

- **Karen Kingsley - RW Commentator**

Ryan brings up a very valid point, that there are supermarkets that BLEND product selection, service, meals / catering, some form of attractive pricing, marketing with loyalty efforts (not the price card with loyalty incorrectly emphasized) and a Brand image. Look at Ukrop's, Ball's, Gelson, Harris Teeter, and the quiet giant Publix. Publix has an above average pricing structure to the Industry, but supports it with outstanding service to its shoppers, product selection, advertising and loyalty, and constant monitoring of its shopper base and its competitors' shoppers. All these points of Publix roll up to what our grocery people must eventually embrace -- marketing "Best Practices". Ryan's other key point.

As for Chicago, Dominick's, before Safeway, used its perishable department and the very unique and profitable Fresh Cafe (consisting of deli, bakery, catering, meals, and commissary support) to differentiate itself from Jewel / Albertsons, Cub, etc. And, Dominick's did it very well.

The operative word is "blend" of the above elements - service to shopper; two way communication with shoppers; advertising to shoppers what is new and what to look for; loyalty with minimal price emphasis; product variety; fresh foods and meals, catering for large family events and business functions; and again, listening and reacting to shoppers' needs without price. If you don't listen and understand what the shopper is telling you (the supermarket), then price, being the easy way to run a business - with very minimal profit - becomes NOT the point of difference, but the means to keep cash flow occurring.

Consumers want more than low pricing on grocery products! Consumers are willing to pay for better service and quality products and fresh foods / meals...knowing that they are being heard!! The historic practices of the grocery Industry are ineffective in today's evolving retail world! Hmmm - **Stephan G. Kouzomis - BrainTrust**

Old habits and traditional strategies are hard to move away from, especially if they continue to keep you afloat in a highly commoditized industry. "As long as I'm hitting my numbers, no matter how thin my margins are, why take a chance on a 'bold' new strategy?" While the answer seems obvious, the implementation is much more complex. New strategies impact every facet of a company...culture, employees, compensation, customer service, marketing, branding, advertising, merchandising, operations, etc.

Strategic planning sessions rarely exist in the supermarket industry...at least at the level required for top management to openly discuss and confront the challenges and solutions required to truly differentiate one chain from another. Part of the evolution process requires a willingness to learn from successful competitors in other consumer-centric industries. The study of "marketing best practices" was begun by companies that realized they no longer stood for anything that mattered -- at least in the consumers' mind -- but had the progressive desire and commitment to build an identity based on what their target audience told them they wanted. They actually listened to consumers and then decided how to best fulfill their needs in a manner that was consistent with the company's core competencies.

I'm not suggesting price won't always be a critical tactic, but in the supermarket industry, it will never be a point of differentiation. Those chains that are sincere about "standing out from the crowd" can learn by adopting two simple principles: 1) implement an on-going two-way dialog with current and prospective customers; and 2) learn from the numerous success stories and case histories that are available from other industries that have managed to conquer their fear of "non-price based positioning". - **Michael Aarons - BrainTrust**

Being a latter commentator and with all of the sage insights above, this commentary may not penetrate. But it's history and it gives us yet "another" look at the issue of "differentiation."

Supermarkets began in the latter days of the Great Depression. Jobs were very scarce and pay was very low. To appeal to the consumers who had little or no discretionary income in those initial days, retailers had to offer "price differentiation," which created the foundation philosophy of supermarket industry. It also set a standard of expectancy for consumers. Back then, A&P was the "price" king. A&P built its reputation on "price differentiation" since it was the cheapest place to buy groceries; they took only 1/4 of 1% profit out of the business. Other retailers had to compete against that A&P standard. But from that singular-focused foundation, the greatest and most efficient food distribution system in the world was created.

After World War II, there was a great demand for new goods and services. Suppliers and supermarkets expanded their offerings. Many retailers created appeals beyond price. As we all know, eventually A&P lost its course but the supermarkets' and consumers' focus on price continued much like it was a security blanket. In the ensuing years, many food retailers have risen and fallen. All tried to differentiate themselves with assets other than just price. Meanwhile four phenomena arose: a new army of more affluent consumers were created who wanted more personalized treatment and more unique products; the industry consolidated into fewer hands and went "public"; in going public, Wall Street relentlessly demanded short-term results; and then opportunistic Wal-Mart moved into the supermarket industry and took over the lead-dog position with its "Price Differentiation."

Now the huge retailing giants all want to differentiate beyond price but find themselves like a fleet of QEs trying to maneuver against the current, smaller PTs such as Trade Joe's, Stew Leonard, etc. who operate regionally. In this era of so many "for-me-only" consumers, there is only one universal appeal on a broad geographic scale ... and that is price -- perhaps, unfortunately. But stay with me. Thus, what an enormous opportunity rests out there for the leader of some giant publicly-owned chain to create an innovative, new retailing paradigm across the land.

- **Gene Hoffman - BrainTrust**

Mr. Thayer must have missed the small 4 store grocery store chain in the northern suburbs of Chicago called Sunset Foods. They stress the service aspect of their stores, and have an inordinate number of staff people throughout the store and at checkout to help consumers. The store's tag line is, "Once you put an item in your cart, you won't need to touch it again until you get home". This refers to the fact that the store employees will empty your cart, bag the groceries, and place the bags directly into your car. Although this chain does try to keep their costs in line with the other local grocery chains, it's the service and upscale selection that attracts the consumers. - **Larry Greenberg, Sales Manager, Milmour Products, Inc**

The problem is that there was once a time when supermarkets could sustain the loss leading approach and swing the doors enough to make up the volume. It was in a word, easy. The thing is, many still think its easy. They follow the same approach to their death. When the challenge takes effort, imagination and some spine, the same old thing is just much easier. The leaders all know the answers. It's easier to lower prices and take that route hoping to curb the loss in sales by volume. The fact that it's not working any longer for many is really no surprise. The fact that there is little leadership otherwise is more of the problem. Sure there are the few that we always discuss, but in mass, the failure to find another way is and remains a total lack of leadership on the part of supermarket retailing. - **Scanner**

So how much do shoppers really know about what they are paying? Many studies have shown - not much. The image of being a price leader is probably more important than the reality. So who is reading all these grocery circulars, anyway? Not to suggest they aren't important, but have we got a bunch of retailers focussing on the small segment of their customers who really are price knowledgeable/sensitive? Maybe the circulars are the way to communicate with these customers, and are irrelevant to the rest of the brand communication. I think a review of circulars is a very poor sampling of true marketing positioning and strategy.

- **Herb Sorensen, Ph.D. - BrainTrust**

Food ads have two major jobs: 1.) To communicate item and price. Differentiation happens in the store, not in the ad. I'm not surprised that Warren saw only item and price. 2.) To force store managers to display and price the items specified. Surprised by that one? It's true. If left to themselves, store managers will do things their own way, and there are not enough headquarters people to visit every store every week to make sure they're complying with corporate ad and display policy. So the ads recruit shoppers to make sure that the stores comply. When they visit the stores and find that prices, etc. are not "as advertised," shoppers let the manager know about it.

- **Michael Banks, Ph.D. - BrainTrust**

First thing first -- consumers choose a grocery retailer based on location . . .end of story. For the masses, price is the next consideration, and if significant enough, they will drive past one store for another. However most of the major chains are within pennies of each other, so you won't find this happening often. Circulars are intended to make a profit, not drive anyone into the store. They are paid for by the vendors, and in many cases are negotiated with the slotting fees. It's a cost of doing business for vendors, and a source of great revenue for retailers. Most people do not come into the store carrying a flyer, they pick one up at the door. Distribution is paid for so waste is not a concern. And if insertion in a newspaper gets a customer to come in, it's gravy. Most of the grocery retailers who do have a true market differentiation are smaller regional or local operations who do not want the masses. They provide service, much better quality, an appealing shopping experience... things national retailers will not provide. Does that mean there is a big opportunity? You bet. Chances are the opportunity will remain for a long time. It's just not worth it to the major chains to make a switch. - **Marc Bodner - BrainTrust**

## *The RetailWire BrainTrust Panel*

We thank our BrainTrust panelists who have graciously volunteered to lend their estimable viewpoints to our news discussions. They also, from time to time, advise us on our programs and policies.

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Michael Aarons, RLR/Jarrin Advertising & Marketing  
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Bruce Tulgan, Rainmaker Thinking  
Art Turock, Art Turock & Associates  
Jerry Tutunjian, Canadian Grocer magazine  
Garrett Van Siclen, Trade Dimensions  
Dave Wendland, Hamacher Resource Group  
Art Williams, Retail Marketing Consultant/Analyst  
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Karen Kingsley, Kingsley Business Advantage  
Ron Margulis, RAM Communications  
Warren Thayer, Private Label Buyer  
Al McClain, RetailWire  
Rick Moss, RetailWire  
Santi Briglia, RetailWire

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