From Ingredient Shopping to Meal Solutions

Meeting the Consumer Appetite for Change

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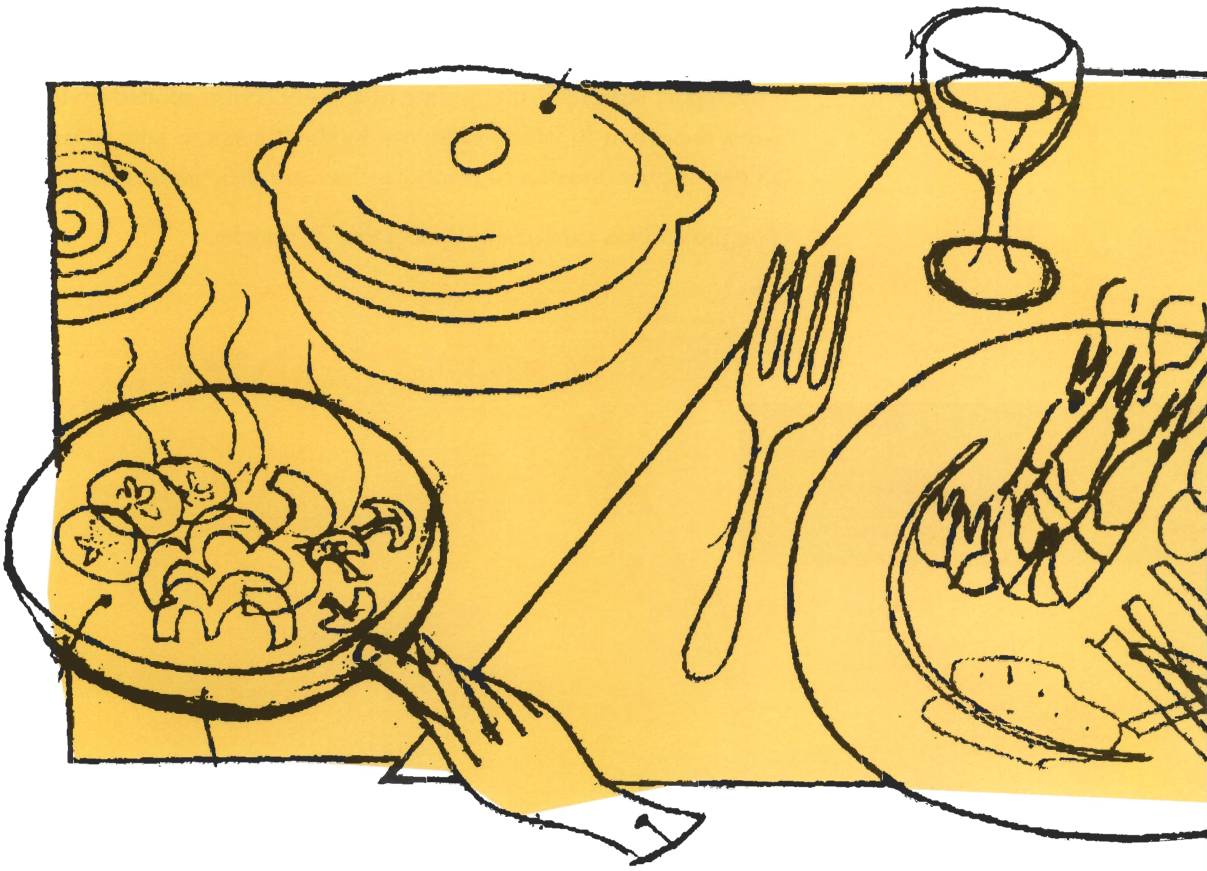

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A Study Conducted for

The Coca-Cola Retailing Research Group, Europe

by

Deloitte & Touche

Foreword

The Coca-Cola Retailing Research Group, Europe (CCRRG,E) comprises leading European grocery retailers. It is sponsored by the Coca-Cola Company to conduct research into key topics in grocery retailing.

This report represents the finding of a study commissioned by the CCRRG,E to assess the extent to which European food retailers can take advantage of the Meal Solutions phenomenon to protect or increase their market share.

The project was carried out by Deloitte & Touche.

Previous Reports

The previous reports of the group are:

- I Staffing Supermarkets in the 1990s
- II Food Retailing in Europe
- III Grocery Distribution in the 90s – Strategies for Fast Flow Replenishment
- IV Building Customer Loyalty in Grocery Retailing
- V Supplier-Retailer Collaboration in Supply Chain Management
- VI The Future for the Foodstore – Challenges and Alternatives
- VII Knowing your Customer – How customer information will revolutionise food retailing

Copies of these studies are available from:

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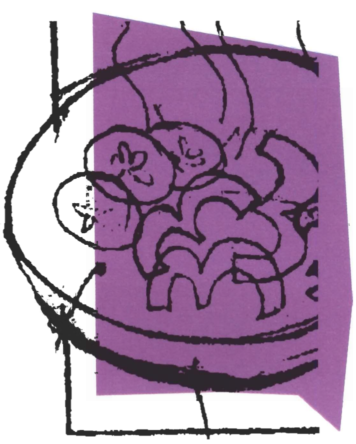
1.1 Introduction



1 Introduction

1.1 Introduction

This study is an exploration of the new forces in meal provision. The traditional boundaries between the retail food market and foodservice providers in their many forms have become blurred as a result of dramatic changes in peoples' lifestyles. Increased wealth coupled with pressures on time provide a challenge to conventional habits in food shopping and eating out. This report introduces the term Meal Solutions, which is defined as:

The retailing of prepared meals or meal equivalents primarily for consumption in the home.

The expression 'Meal Solutions' has been carefully chosen rather than the alternative 'Home Meal Replacement', because it more accurately describes the opportunity in Europe. 'Replacement' in the USA context refers to consumers electing to replace current snacking or 'grazing' of items purchased from foodservice vendors, or meals taken in restaurants, by prepared meals for consumption in the home. In contrast, Europeans habitually consume meals prepared in the home from ingredients they have bought. Meal Solutions recognises this activity by removing much of the time and effort involved in preparation.

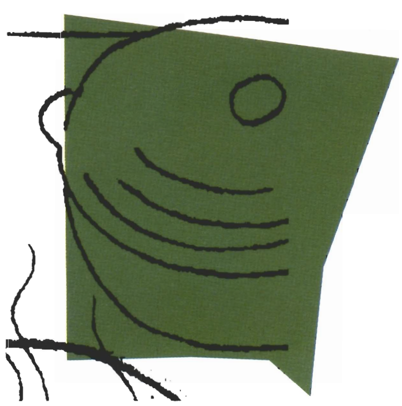
The report examines relevant trends in food shopping and meals consumption in the USA and compares and contrasts them with the European situation. It suggests a strategy for Meal Solutions in Europe. It proposes a conceptual approach to Meal Solutions operations, and concludes with a guide to implementation.

This is a major industry topic demanding a multi-level approach. The following research activities have been carried out:

- desk-top research of the retail and foodservice sectors in the USA and Europe, including on-line and text-line searches, review of material from the Deloitte & Touche industry library

- telephone research among food retailers and foodservice operators
- extensive familiarisation trips in the US and Europe, involving accompanied and mystery shopping visits to a variety of stores
- qualitative research utilising focus groups in six European countries
- discussions with related industry specialists including architects, designers, academics, trade journalists, research houses, etc.
- internal creative 'brainstorming'
- origination and running of predictive models.

2 Executive Summary



2 Executive Summary

2.1 Meal Solutions in Context

A new mindset has challenged the ways in which consumers are buying, preparing and eating food. As illustrated in Figure 1, traditional boundaries between food retail and foodservice (food provided by restaurants and eaten on the premises) are becoming increasingly blurred.

Figure 1 illustrates the convergence of two traditionally separate sectors to form a hybrid, exploiting food retailing strengths – variety, price and quality of ingredients – and the attributes of successful foodservice – service, ambience and quality of finished goods. The opportunities in this new Meal Solutions market have already started to attract both food retailers and foodservice operators in the USA and Europe. In the UK, for example, Whitbread, entered the UK Meal Solutions market with a new brand called 'Wellingtons' (now known as 'Kens'), and other new entrants are poised to exploit the opportunity.

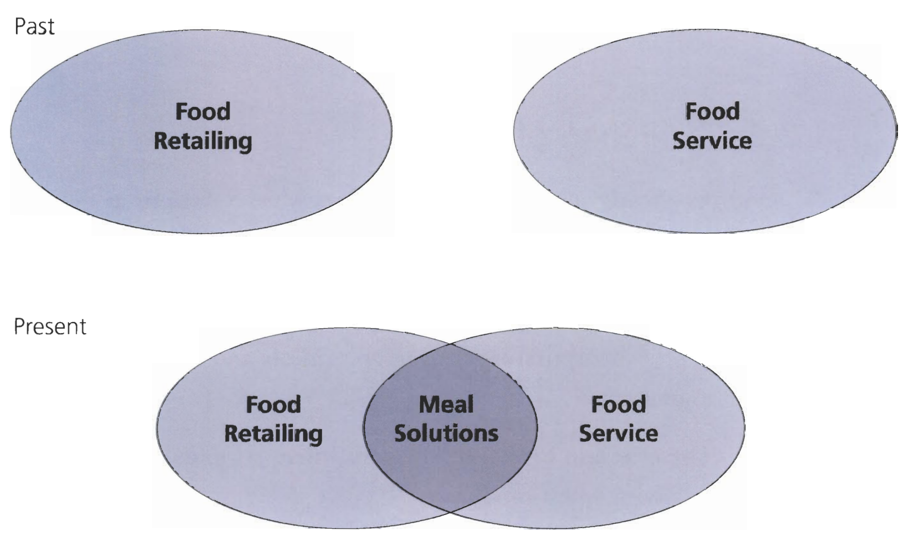


Figure 1 Meal Solutions – An Emerging Food Market

Innovative new products – ready-meals, mass-market gourmet sandwiches, microwaveable chips – are available twenty-four hours a day from a new genre of alternative distribution channels such as convenience-stores, transportation, home-delivery, Internet shopping and the workplace.

Consumer markets are fragmenting similarly. The active, expressive and confident over-fifties – the so-called Grey Panthers – are a growing segment that is reluctant to allocate time on food-shopping or preparation rather than leisure activities. And the housewife [or house-husband] is in all probability working full-time or part-time and facing major logistical hurdles to steer the family through the week.

The consequence of these market forces is for conventional European meal habits - regular ingredient shopping from supermarkets supplemented by infrequent, special-occasion driven restaurant visits – to be re-examined. The goal for foodservice operators is to tempt people from the comfort and safety of the home. For food retailers, this challenge means satisfying consumers' complex needs for convenience, variety, quality and nutrition in a way which complements rather than conflicts with contemporary lifestyles.

2.2 Definition of Terms

As already stated, this study defines Meal Solutions as the retailing of prepared meals or meal-equivalents primarily intended for consumption in the home. The word 'prepared' encompasses a range of whole or part-meal menu items. The implication of this is that Meal Solutions is a category with both width and depth, incorporating convenience meals and meal components, but not raw ingredients.

The criterion for Meal Solutions, then, suggests satisfaction of most of the following questions:

- is the item a core meal or meal-equivalent, rather than a snack?
- does the item incorporate some form of added-value process?
- do the attributes of the product promote consumption at home rather than eat-on-the-premises or in-transit?

- is the regeneration and serving process made easy for the consumer?

  By definition, Meal Solutions would not include food retailing items such as unprepared meat cuts. Bakery and basic frozen or chilled foods rather than meals are also a different category. Likewise foodservice items such as a snack purchased at a Quick Service Restaurant for consumption in-transit, or a special occasion meal in a gourmet restaurant do not fall within the Meal Solutions definition.

  We identify at least three components – Meal Solutions Now, Soon and Later – describing the relationship between purchase and consumption of the prepared meal.

Meal Solutions Now	prepared food for immediate or near-immediate consumption either in-store, in-transit, at home or other venue e.g. chicken or pizza
Meal Solutions Soon	the relatively planned purchase of prepared food for consumption primarily in the home, often after 'regeneration' (some form of re-heating, usually by microwave.)
Meal Solutions Later	prepared food for consumption almost definitely in the home and after regeneration

In strictly applying the criterion of consumption in the home, the focus of the study is towards the latter two components, although we argue later in the report the need also to address the former as part of a wider Meal Solutions strategy.

2.3 An American or European Solution?

In the USA there is a lot of activity in the Meal Solutions sector, trying to cater for a varied demand. Convenience is the number one consumer priority, but some of the early responses do not necessarily reflect this. Arguably, the American models (described later as the Meal Solutions Centre, the Quick Service

Restaurant and the Food Boutique) have met with varied success. As we will see, there are valuable lessons to be learned from them, but they are not entirely appropriate for the European market.

In Europe there is, as we know, a wide variety of nationalities, habits and lifestyles. Spending patterns differ greatly between countries. There are significant differences amongst these countries, as well as between Europe as a whole and the USA, in terms of where people get their family meals from, frequency of eating out, and money spent on eating out.

Three groupings of European countries have been identified based on their likely receptiveness to Meal Solutions. Based on a range of indicators, the countries identified as having the most potential for Meal Solutions are Denmark, Norway, Switzerland, and the United Kingdom. The group demonstrating the least potential is Greece, Italy, Portugal and Spain, with other countries in between. Despite these regional differences, the change in eating habits is likely to occur quickly, and presents an opportunity now for food retailers.

2.4 A Meal Solutions Strategy for Europe

The report presents eight hypotheses that form the building blocks for a development strategy. These hypotheses are:

- In Europe, consumers will see Meal Solutions as an alternative to shopping for ingredients and preparing them at home. In the USA the comparison is with eating out.
- The threat to European supermarkets from the foodservice sector is potential rather than actual. There is time to act to protect food spend in the future.
- Full in-store foodservice, involving complex preparatory production, is too costly and carries too many risks.
- Meal Solutions Now has relatively small potential. Meal Solutions Soon or Later have more potential.

- Meal Solutions in Europe will be successfully implemented if it offers a mix of categories involving products from a range of temperature controlled states.
- Chilled and frozen meals are likely to play a significant role in any effective European Meal Solutions Programme.
- Quality and price are given factors: convenience, variety and wholesomeness are key differentiating factors for European supermarkets.
- Any effective Meal Solutions offering is likely to bring about changes to existing food shopping patterns. Supermarkets are modular: there are fixed aspects but they have the flexibility to rearrange store configurations.

An analysis and critique of these ideas leads to the following conclusion:

- Working from existing strengths and recognising emerging market trends, European supermarkets should seek to optimise market share through low risk development of a Meal Solutions product mix combining relative quality with absolute convenience.
- European supermarkets have many inherent strengths including location and relationships with customers. But they should be aware that two types of food shopping exist. The first is conventional, ingredient-based shopping. The second is where customers are seeking the convenience of pre-prepared goods of the right quality. Supermarkets must compete for business only on their own terms. The approach must have a carefully constructed product mix. The quality offered should be relative to the store's own standards. And convenience is key to attracting customers into the store.
- We suggest that 'restaurant quality', a term often associated with Meal Solutions, is inappropriate and a potential diversion.

2.5 Meal Solutions Models for Europe

Two models are presented for the implementation of a Meal Solutions outlet in a medium to large supermarket. They are modular and conceptual and are not specific to any one European country. The first describes a possible approach, a Meal Solutions Centre, that incorporates quick service restaurant (fast-food) items, an ethnic meals counter, a chilled and frozen food section, convenience produce, convenience groceries, a demonstration station, distress groceries, a dedicated check-out and drive thru' window, and other related components. This represents a possible first step and could be implemented in an existing store. The second model or 'Deconstructed Store', is more futuristic, involving the separation of bulk shopping from other activities, the retention of a fresh foods section, but the laying out of categories by meal occasion rather than by temperature state (i.e. the grouping together of meal constituents).

2.6 Implementing a Meal Solutions Strategy

The key prerequisites and critical success factors are:

- convenience of the product
- full communication with staff, suppliers and customers regarding the launch and operation of the new venture
- hyperactive research and development into the supply chain
- one hundred percent commitment to the strategy, with no diversion from specific goals for short-term gain and no complacency towards change
- quality relative to the store's brand propositions.

With these factors in place, this report concludes that there is a clear trend in changing eating habits and this presents a major growth opportunity for Meal Solutions in European supermarkets.

3 Meal Solutions in the United States of America

3 Meal Solutions in the United States of America

3.1 Overview

As with many consumer trends, we look to the United States of America for the origins of Meal Solutions, although this does not deny that Meal Solutions enterprises exist in Europe. Here we consider the USA experience, appraising specific aspects:

- the causes of the USA phenomenon
- the evolution of current Meal Solutions models in the USA
- qualification and quantification of performance of these models
- likely future trends.

3.2 The Rationale for Meal Solutions in the USA

Today's Meal Solutions offerings are a direct consequence of supply and demand forces which have combined to shape contemporary meal experiences. We have identified nine key factors and explore their cause and effect relationships. These factors are shown in Figure 2.

3.3 US Meal Solutions Models

The research work carried out for this study has identified a wide range of Meal Solutions offerings with significantly different product mixes and market positionings.

The classification we have adopted to allow sensible comparison with European initiatives and opportunities is as follows:

- The Meal Solutions Department – dedicated zones within supermarkets.

Factor	Commentary
Contracting-Out	A range of domestic staples have become 'contracted-out' due to the growth in the premium service sector, so why not meal preparation through Meal Solutions?
Pressures of Time	Meal Solutions provides an opportunity for regaining time otherwise lost on mundane food preparation and production.
Fragmented lifestyles	Disrupted patterns of work and social activity prevent consumers from pre-planning meals, resulting in an increased propensity for Meal Solutions.
Pleasure Revenge & Small Indulgences	The trend-watcher Faith Popcorn's identification of society's need to reward itself with regular treats to off-set the stresses of modern life.
Menu Fatigue	In the US, menu fatigue and customer disenchantment have shown that fast-food outlets can only satisfy a proportion of consumers, and that opportunities exist for Meal Solutions which offer quality, variety and value.
Health Awareness	Better health education, underscored by continuous nutritional fads, serves to promote the healthy, freshly prepared alternative offered by Meal Solutions. 14 million Americans now consider themselves full or part-time vegetarians, double that of ten years ago. Centenarians are now among the fastest growing segment of the US population.
Cocooning	The trend towards home-corralling as a consequence of urban areas becoming run down, fears for public safety and the rise of sophisticated home-entertainments media.
Family Units	Traditional nuclear families are becoming the minority due to the rise of single-parent and non-family households, creating a consumer segment less reliant on traditional family values such as the communal evening meal.
Ethnicity	Households occupied by individuals from more than one ethnic group are on the rise, a trend which adds to the problem of resolving the provision of family meals, with a host of ethnic, religious and cultural issues dictating food preferences.

Figure 2 The Case for Meal Solutions

- The Quick Service Restaurant (QSR) Model – stand-alone operations.
- The Food Boutique – usually stand-alone, highly branded food halls.

We recognise that these models are essentially prototypes, formulated to exploit opportunities or counter threats in a marketplace entirely different to Europe. This assessment was made from observations of store operations and anecdotal comment from industry observers. Figure 3 illustrates the key points of difference.

Indicative Examples	Demo station	Full Kitchen	Finishing Kitchen	Hot Buffet	Convenience Deli/Bakery	Chilled Meals	Dedicated cash point(s)	Full Service Restaurant	QSR – in-house operation	QSR – 3rd party concession	Seating	Coffee Bar	Drive thru'	Remote ordering	Home delivery	Function catering	Menu/meal planning point	Model
Dean & Deluca		●		●	●								●	●	●	●	●	Food Boutiques
Eatzi's		●		●	●						●	●	●	●	●	●	●	
Foodlife (store)		●		●														
Yabu			●										●	●	●	●	●	
Sutton Gourmet		●			●							●		●	●	●	●	
Boston Market			●	●			●		●		●		●	●		●		QSR's
Boston Garden			●	●	●		●		●		●		●	●		●		
Koo Koo Roos		●		●	●		●		●		●			●		●		
Dominick's			●	●	●	●			●		●	●				●	●	Meal Solutions Department
Giant		●		●	●	●	●											
Harris Teeter					●	●			●					●			●	
HEB Central Market		●		●	●	●		●	●		●	●		●		●	●	
Randalls	●		●	●	●	●	●		●					●		●	●	
Rice Epicurian		●		●	●	●						●		●	●	●	●	
Sutton Gourmet		●										●		●	●	●	●	
Ukrops	●		●	●	●	●	●		●	●	●	●		●	●	●	●	
Wegmans	●	●		●	●	●	●	●			●			●		●	●	
Larry's			●	●	●	●	●		●		●	●		●	●	●	●	

Figure 3 US Meal Solutions Models

3.4 The Meal Solutions Department

3.4.1 Description

This model reflects the response of USA supermarkets to the Meal Solutions opportunity. The core model comprises a critical mass of Meal Solutions components in a dedicated zone within the store. Examples include Central Market, Ukrops and Wegmans.

Common characteristics include:

- some form of visible foodservice, normally with a QSR application and usually a hot buffet
- convenience deli and/or bakery
- chilled or frozen meals
- some form of remote ordering, with menu planning aids
- functions catering capability.

3.4.2 Analysis

An examination of the principles of this model is shown overleaf using the SWOT – Strengths, Weaknesses, Opportunities and Threats – framework.

The main advantages lie in the focus on meal preparation activity, reinforcing the underlying message of Meal Solutions. Unfortunately this comes at a high cost, with a number of associated risks, namely:

- a direct comparison with commercial QSR is invited
- the culture clash between foodservice and food retail staff
- a reinforcement of the flaws in conventional shopping habits exacerbating consumer frustration and forcing consumers to make choices between food retail and foodservice
- a food production capacity that drives the focus towards low profit sales areas [Meal Solutions Now and functions] away from core business opportunities [Meal Solutions Later].

Strengths/Opportunities	Weaknesses/Threats
product range/ variety	poor yield management/ high wastage
food theatre	inconsistent product quality
low prices	incomplete product mix [chilled meals?]
bundling of meals and peripherals	space and capital intensive
customer service	shelf life of product
staff with good product knowledge	not convenient for users
product data [nutrition]	poor quality of manufacturer label meals
in-store signage	low profitability
packaging	labour intensive

Figure 4 SWOT Analysis of USA Meal Solutions Department Model

3.5 The Quick Service Restaurant Model

3.5.1 Description

The QSR Model in the Meal Solutions context offers cooked and cold meals in a quick-service format. The model borrows heavily from the conventional QSR segment – high-impact exterior, good access and parking and strong in-store merchandising displays. Examples (see Figure 3) include Boston Market, Boston Garden and Koo Koo Roos.

3.5.2 **Analysis**

There are three main opportunities provided by the QSR model:

- replication and roll-out into a system are relatively straightforward
- the system is franchiseable, as a function of the de-skilling and formula approach
- the small store size enables easy penetration of neighbourhoods.

Countering these are a series of challenges:

- the model occupies a narrow niche, leaving it vulnerable to competition from traditional QSRs and casual-dining offers

Strengths/Opportunities	Weaknesses/Threats
high-impact exteriors	level of capital investment
recognisable QSR references	potential confusion regarding product positioning
quality of signature meal items	narrow product range
high nutritional content	labour intensive
quality of ambience	protecting the added-value price point
accessible; convenient [drive-thru']	speed of service
provision of meals, not snacks	shoulder day-parts are not covered

Figure 5 SWOT Analysis of USA QSR Model

- the positioning is potentially confusing to new markets; a high level of marketing is required to educate markets and position the proposition accurately
- Under-sizing of the store constrains the operation and limits eat-in trading and over-sizing quickly becomes cost prohibitive.

3.6 The Food Boutique

3.6.1 Description

Of all the expositions of Meal Solutions in the USA, this model has created the biggest impact, with the high profile coverage of Eatzi's and Dean & Deluca. These outlets rely on the provision of meals at a gourmet level, supported by extensive in-store merchandising.

Strengths/Opportunities	Weaknesses/Threats
high-impact interiors	extremely labour intensive
natural brand equity	inconvenient to use
strong brand image	intimidating to some segments
atmosphere	level of capital investment
appeal to variety of senses	product availability and consistency
service style and culture	yield management/wastage
food quality	poor category management
value	price
lifestyle shopping promoting loyalty	sustainability?

Figure 6 SWOT Analysis of USA Food Boutique Model

3.6.2 Analysis

This model proves to be the most polarised of all, with extreme merits and disadvantages.

The chief advantage of the Food Boutique is that it addresses the parallel forces of food shopping – ingredients and meals. There are however major drawbacks that present a high level of risk:

- the model is both segment and site specific; there are only a limited number of suitable catchments in any territory to penetrate, with little tolerance or flexibility
- the product mix produces an unpalatable logistics formula: a high number of stock keeping units (SKUs) combined with fluctuating sales across categories. Consequently, stock management is difficult, wastage potentially high and out-of-stocks are a real problem
- allied to this aspect is the lack of economy of scale in key areas to drive down unit prices with suppliers
- the model needs a certain critical number of outlets; downscaling quickly undermines the proposition
- Food Boutiques are vulnerable to competition from larger supermarkets and from convenience-stores.

These threats combine to produce low profitability, which can only be made worse at times of recession.

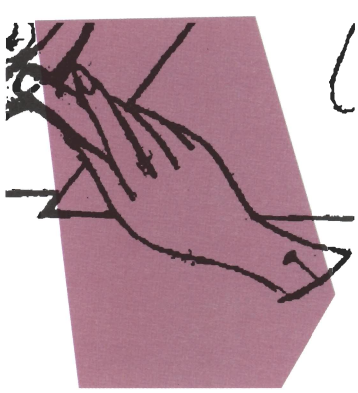
3.7 Conclusions

This review of the US approach to Meal Solutions demonstrates the breadth of the subject and the variety of ways in which retailers have sought to exploit the opportunity. Learning from the USA, we identify six clear lessons for any European Meal Solutions programme:

Lessons from the USA

Market Appeal	Whilst having at its core higher-earning consumers with busy lives, Meal Solutions serve widely differing demographics
The Meal Solutions Mix	Despite this heterogeneous demand, the approach to Meal Solutions remains relatively homogeneous, with single product or limited combination offerings.
Reactive versus Proactive	Unlike the US, where retailers have been forced into a reactive position by a fragmenting consumer base, Europe's still emerging market allows its retailers the luxury of acting proactively.
Operating Performance	The key lesson for European retailers is to remain focused and not to seek to satisfy any Meal Solutions opportunities without regard to the profitability of that business or the impact of that activity on the core supermarket business.
Convenience	Convenience – in terms of customer time in store, ease of buying, transporting and preparing – is the number one consumer priority.
Pricing	The profitability of Meal Solutions in the US is currently low due to tactical pricing in defining the optimum price point for their Meal Solutions programme.

4 The European Market Place



4 The European Market Place

4.1 Overview

Our investigations in the USA indicate that there are unique attributes which separate it from the European market, and, as with the majority of consumer trends, to assume similarities between markets is to over-simplify world economics and is dangerously misleading. This project calls for the formulation of a strategy and a strategic model for implementation into the European food retailing sector. To be credible this model must recognise trends in demand at macro and micro levels as well as the constraints and opportunities of the supply-side, including direct and indirect competitive activity.

What is required is a consideration of the strategic differences between the USA and Europe.

4.2 European Food Retailing

In examining the critical differences in food retailing between the USA and Europe, it becomes clear that there is a direct relationship between Meal Solutions and the relative strengths of the food retailing and foodservice sectors. The opportunity for Meal Solutions seems to be highest in countries where the food retailing and foodservice segments are converging. In Figure 7 we have prepared a 'food barometer' to examine this degree of convergence across Europe, with the USA position included for comparison.

This table relies on secondary data. Each country defines its meal sectors according to different criteria, so official statistics are notoriously unreliable. In this aspect, the USA is different, with widespread access to accurate data.

	Food Retail		Consumer Catering	
	$bn	%	$bn	%
Ireland	4.0	**85.0**	0.5	**15.0**
Portugal	20.8	**84.0**	4.0	**16.0**
Belgium	24.4	**83.3**	4.9	**16.7**
Sweden	21.1	**83.2**	4.3	**16.8**
Greece (1994)*	19.5	**82.0**	4.3	**18.0**
Austria	22.2	**81.7**	5.0	**18.3**
Finland	12.7	**80.8**	3.0	**19.2**
Denmark	15.9	**80.0**	4.0	**20.0**
Netherlands	30.5	**76.0**	9.7	**24.0**
France (1996)	126.0	**75.2**	41.4	**24.8**
Spain	66.3	**75.0**	22.1	**25.0**
Germany (1996)	144.0	**74.3**	49.7	**25.7**
European (excl UK)	507.4	**76.8**	152.9	**23.2**
UK (1997)	81.6	**69.0**	36.6	**31.0**
USA	396.6	**55.9**	312.90	**44.1**

References
Corporate Intelligence on Retailing, NRA, FES, RG Data, Progressive Grocer. *Consumer catering figures not available. Horeca figures used which include liquor. NB. 1995 data used unless noted otherwise.

Figure 7 The European Food Barometer

Note Foodservice meals are priced to deliver a gross margin of around 65 per cent, that is, the food cost accounts for 35 per cent of the selling price. Thus, on near like-for-like terms, the value of the food consumed at cost in USA foodservice is around $109.5bn, giving a total meal market value of around $506bn.This changes the food retail: foodservice ratio to 78%:22% rather than 56:44.
If the volume of meal transactions is analysed, another picture emerges: working on an average retail meal cost per person of $3 and an equivalent foodservice meal cost per person of $8 [reflecting a weighted split between QSR, Casual-Dining and Fine-Dining], the ratio of meal transactions for food retail: foodservice is 77%:23%.

For the UK, this volume ratio is even more polarised at 90%:10%, allowing for an uplift on average spend per person per meal in foodservice to $12. Currency fluctuations are similarly not addressed.

The findings are significant, but need to be placed in proper context. The barometer records the share of Food Spend ($bn and %) and details the value of food sales through the foodservice and food retail sectors, illustrating a converging market in the USA, although, according to NRA and FMI sources, the USA has not yet made the transition to a foodservice-led market. 1995 was a benchmark year, however, with 51% of the value of meals bought in USA foodservice establishments eaten off the premises. The average ratio across Europe (*including* the UK) for the overall value of the food market is 76% food retailing, 24% foodservice. This contrasts with a 56:44 ratio in the USA.

4.3 Foodservice in Europe

Consideration of the other parent of Meal Solutions – commercial foodservice – in both continents provides further clues as to how the trend may materialise in Europe. Appraising the findings of this schedule on a quantitative basis initially, we note several significant points of difference likely to dictate an alternative evolution of Meals Solutions for Europe:

- consumer spending on foodservice is far higher in the USA than any European country. Per capita spending in the USA is approximately double the average for Europe
- according to the source selected [Corporate Intelligence on Retailing], the highest levels of consumer foodservice activity in Europe occur in Denmark, Italy, France and Norway
- the countries with the lowest recorded consumer expenditure on foodservice are Ireland, Portugal, Greece, and Sweden
- the number of foodservice outlets per million population in Europe is high by USA standards, reflecting an immature market, but sales productivities are correspondingly low compared to the average outlet turnover in the USA of around $405,000 per annum.

Further differences are highlighted in Figure 8.

Factor	Commentary
Frequency of Eating-out	In the USA, eating-out is habitual, but in Europe it is still largely driven by business or special occasions.
Menu	Regional cuisine is a relatively recent phenomenon in the USA, whereas Europe has a highly diversified range of cuisine.
Branding/Ownership	Much of US foodservice is branded, but the bulk of European foodservice is independently operated and non-branded.
Prices	High foodservice prices in Europe are a barrier to a high incidence of eating-out, whereas low foodservice prices in the US reflect its commodity status and economies of scale.
Service	US service standards are relatively consistent, but in Europe they can vary from over-formal to brusque to over-casual.
Location	In the USA, out-of-town 'strips' on main arterial highways are the hot-spots of foodservice development. In Europe, more towns tend to have established dining quarters.
Marketing	European promotion and advertising of foodservice lags well behind USA.
Legislation	With few exceptions, legislative controls appear to be tighter in Europe regarding food safety, public safety, liquor licensing, work practices and operating policies.

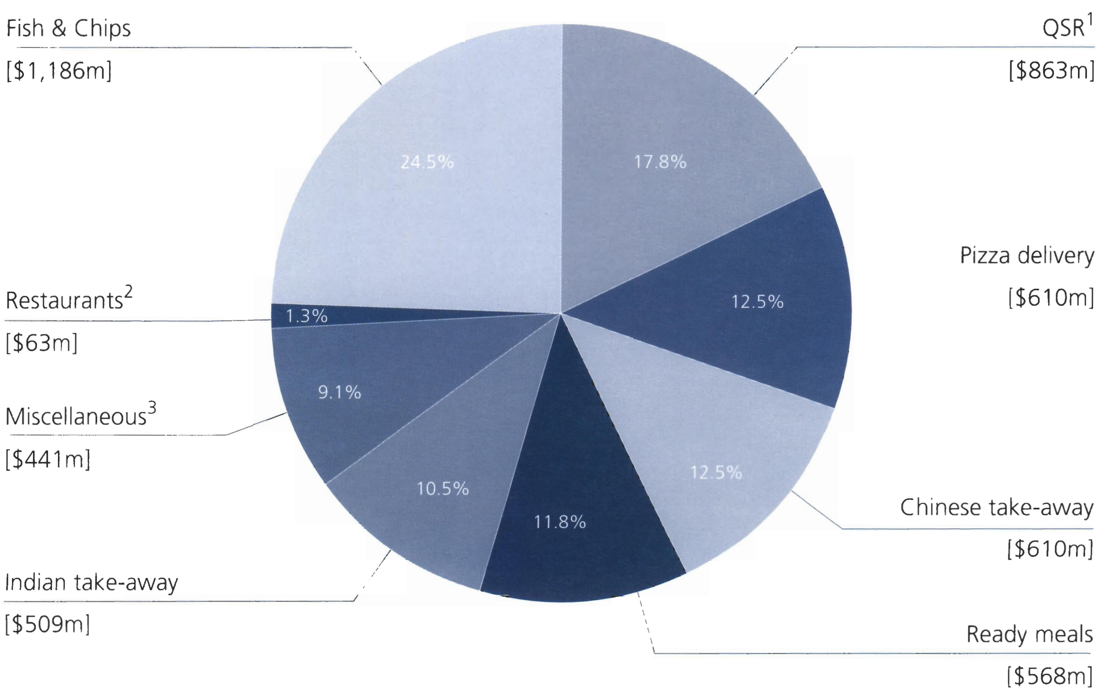
Figure 8 Differences between USA and European food service markets

In drawing out the implications for Meal Solutions in Europe, we conclude that the more fragmented foodservice base in Europe, combined with increasingly robust barriers to entry, provides European supermarkets with an opportunity for market development.

4.4 Market Potential for Meal Solutions in Europe

In the Introduction, we defined Meal Solutions as a new food segment emerging from origins in both food retailing and foodservice. Quantifying the sizes of the respective markets is a separate study topic in its own right, but a simple model will illustrate the broad orders of magnitude. Figure 9 estimates the size and position of the embryonic UK Meal Solutions market.

This model indicatively values the UK Meal Solutions segment at around $4.85bn, equating to about 4 per cent of the total UK food market. Assuming that the UK market is relatively developed, an average ratio for Meal Solutions across Europe might be around 3 per cent. This values Meal Solutions across the European countries surveyed in Figure 7 at around $26bn.



References
Corporate Intelligence on Retailing, *Euromonitor*; all figures 1997, including estimates.
[1] for modelling purposes, 10% of QSR [8,626m] is modelled as Meal Solutions; includes supermarket QSR
[2] a nominal 1% of total restaurant value [$6,313] is modelled as Meal Solution business
[3] other sources, modelled at 10% of the sub-total

Figure 9 The UK Meal Solutions Market – Main Components and Approximation of Size

The food barometer previously shown in Figure 7 contrasts the markets in the USA and Europe and indicates the degree of difference across Europe. Generally, those countries nearing market equilibrium, with a growing foodservice market and a flat food retailing market, are ripe for Meal Solutions activity.

However, this is only a crude indicator of a general trend. There will be exceptions to it. In order to assess in more detail the relative strengths of different European markets, we have analysed the key macro-economic and lifestyle

Indicator	Commentary
Gross Domestic Product [GDP]	An expression of relative wealth, described in per capita terms, but in Europe, the complexities of the social benefits systems affect total net discretionary income in each country, irrespective of real GDP.
Working Women	One component of the cash-rich:time-poor society, expressed as percentage 'activity rate' of the female population for each country.
Weekly Working Hours	The other component, tracking the hours worked by full time employees in each country.
Microwave Ownership	One of the big clues to a convenience driven society, measured in percentage household penetration.
Video Rental	An indicator of 'cocooning', expressed in number of rental transactions.
QSR Spend	QSR Spend per capita expenditure on systematised fast food, indicating consumer desire for convenience meals.
Frozen Food Consumption	Measured at the per capita rate to incorporate this expression of a convenience lifestyle.
Health Awareness	Meal Solutions will be driven by consumers desire to eat healthily [perhaps avoiding QSR?], measured in the analysis as the value of vitamins and dietary supplements consumed.
Household Stability	The fragmenting household, driving disrupted families to search for 'quality-time' (based on the divorce rate per 1,000 residents).

Figure 10 Indicators of Meal Solutions Potential

indicators, Figure 10, which tend to define an infrastructure with the potential for Meal Solutions. These indicators have then been weighted for impact and scored using an index for averages across Europe. The result is a predictive model (detailed in Figure 11) identifying Meal Solutions hot-spots within Europe and denoting relative difference between markets. We include the USA for purposes of comparison.

The findings can be graded as follows:

- most immediate potential – Norway, Switzerland, Denmark, and UK
- medium potential – Sweden, Germany, Austria, Finland, France, Belgium, The Netherlands and Ireland
- longer term potential – Portugal, Italy, Spain, and Greece.

The value of these findings lies in four key areas.

- The indicators place Europe at an equivalent position, in market development terms, to the USA around ten years ago. This was at the commencement of the convenience eating boom in the USA. With hindsight, European supermarketeers are now in a position to pro-actively defend their share of the 'Food Euro' without the threat of an established and entrenched foodservice segment.
- We have constantly stressed the heterogeneity of Europe, but this is not to deny pockets of relative market similarity. There is a common seam running through parts of Scandinavia, Germany and Austria, and also through the Southern Mediterranean countries. This allows retailers in one country to learn from Meal Solutions implementation in other similar countries and capitalise on the learning curve for their own territory.
- Retailers should take comfort in knowing that in some areas – working women, GDP per capita, working week – Europe is exceeding USA indicators. Penetration of these markets with Meal Solutions should therefore be relatively quick.
- For an increasing number of pan-European food retailers, this model provides a schedule of priorities to direct resources within a phased implementation programme for Meal Solutions.

The findings from the model substantiate the Meal Solutions opportunity in Europe. Economic indicators are starting to reach the level when embryonic Home Meal Replacement activity commenced in the USA. The speed of change is likely to occur faster in Europe, mirroring penetration of mainstream consumer goods in the two territories.

Input (Weighting)	Factor	Austria Stastistic	Austria Index	Austria Weight	Austria Score	Belgium Stastistic	Belgium Index	Belgium Weight	Belgium Score	Denmark Stastistic	Denmark Index	Denmark Weight	Denmark Score	Finland Stastistic	Finland Index	Finland Weight	Finland Score
8	**GDP per capita ($'000)**	**25.6**	**2.0**	**8.0**	**16.0**	**23.8**	**1.0**	**8.0**	8.0	30.9	**2.0**	8.0	**16.0**	**22.9**	**1.0**	**8.0**	8.0
9	**Working women (Activity rate 1995) (%) NB Austria 1993 Ireland 1994**	**58.5**	**1.0**	**9.0**	9.0	51.7	0.0	9.0	0.0	73.3	2.0	9.0	18.0	70.0	2.0	9.0	18.0
8	**Weekly working hours : full time employees 1995**	**39.3**	**1.0**	**8.0**	8.0	40.3	1.0	8.0	8.0	39.0	1.0	8.0	8.0	38.6	1.0	8.0	8.0
6	**Household microwave penetration (% 1995)**	**n/a**	**1.0**	**6.0**	6.0	n/a	1.0	6.0	6.0	n/a	2.0	6.0	12.0	n/a	2.0	6.0	12.0
4	**Video rental transactions per capita (1994)**	4.0	2.0	4.0	8.0	1.7	0.0	4.0	0.0	2.5	1.0	4.0	4.0	1.2	0.0	4.0	0.0
8	**Consumer spending on systemised fast food per capita 1995 ($)**	47.0	2.0	8.0	16.0	46.0	2.0	8.0	16.0	61.0	2.0	8.0	16.0	45.0	1.0	8.0	8.0
4	**Frozen food consumption per capita 1996 (kg)**	7.8	0.0	4.0	0.0	19.2	2.0	4.0	8.0	40.3	**2.0**	**4.0**	8.0	11.7	0.0	4.0	0.0
2	**Vitamins and dietary supplements (per capita value 1996 US $)**	7.0	0.0	**2.0**	0.0	6.9	0.0	**2.0**	0.0	5.8	0.0	**2.0**	0.0	25.4	2.0	**2.0**	4.0
7	**Divorce rate per 1,000 inhabitants (1994)**	2.1	2.0	**7.0**	14.0	2.2	2.0	**7.0**	14.0	2.6	2.0	**7.0**	14.0	2.7	2.0	**7.0**	14.0
	Total Score	63				46				82				58			
	Ranking	7				10				3				8			

Input (Weighting)	Factor	France Stastistic	France Index	France Weight	France Score	Germany Stastistic	Germany Index	Germany Weight	Germany Score	Greece Stastistic	Greece Index	Greece Weight	Greece Score	Ireland Stastistic	Ireland Index	Ireland Weight	Ireland Score
8	**GDP per capita ($'000)**	23.8	1.0	8.0	8.0	25.8	2.0	8.0	16.0	11.4	0.0	8.0	0.0	20.0	0.0	8.0	0.0
9	**Working women (Activity rate 1995) (%) NB Austria 1993 Ireland 1994**	60.6	1.0	9.0	9.0	61.3	1.0	9.0	9.0	44.3	0.0	9.0	0.0	46.7	0.0	9.0	0.0
8	**Weekly working hours : full time employees 1995**	39.9	1.0	8.0	8.0	39.7	1.0	8.0	8.0	40.3	1.0	8.0	8.0	40.2	1.0	8.0	8.0
6	**Household microwave penetration (% 1995)**	48.0	1.0	6.0	6.0	55.0	2.0	6.0	12.0	n/a	0.0	6.0	0.0	n/a	1.0	6.0	6.0
4	**Video rental transactions per capita (1994)**	0.9	0.0	4.0	0.0	2.0	0.0	4.0	0.0	0.8	0.0	4.0	0.0	7.0	2.0	4.0	**8.0**
8	**Consumer spending on systemised fast food per capita 1995 ($)**	69.0	2.0	8.0	16.0	58.0	2.0	8.0	16.0	27.0	0.0	8.0	0.0	31.0	**0.0**	**8.0**	**0.0**
4	**Frozen food consumption per capita 1996 (kg)**	15.1	0.0	4.0	0.0	12.2	0.0	4.0	0.0	6.2	0.0	4.0	**0.0**	**28.0**	**2.0**	**4.0**	**8.0**
2	**Vitamins and dietary supplements (per capita value 1996 US $)**	9.4	**2.0**	2.0	4.0	15.4	**2.0**	**2.0**	4.0	0.8	**0.0**	**2.0**	**0.0**	**9.9**	**2.0**	**2.0**	**4.0**
7	**Divorce rate per 1,000 inhabitants (1994)**	1.9	**1.0**	7.0	7.0	2.0	**2.0**	**7.0**	**14.0**	**0.7**	**0.0**	**7.0**	**0.0**	**0.0**	**0.0**	**7.0**	**0.0**
	Total Score	51				65				**8**				**34**			
	Ranking	9				6				**16**				**12**			

Figure 11 Comparison of European Meal Solution Indicators

Italy				Netherlands				Norway				Portugal			
Stastistic	Index	Weight	Score	Stastistic	Index	Weight	Score	Stastistic	Index	Weight	Score	Stastistic	Index	Weight	Score
19.9	0.0	8.0	0.0	23.3	1.0	8.0	8.0	35.4	2.0	8.0	16.0	9.8	0.0	8.0	0.0
42.5	0.0	9.0	0.0	58.9	1.0	9.0	9.0	72.1	2.0	9.0	18.0	59.1	1.0	9.0	9.0
38.4	1.0	8.0	8.0	39.5	1.0	8.0	8.0	n/a	1.0	8.0	8.0	41.2	1.0	8.0	8.0
12.0	0.0	6.0	0.0	n/a	2.0	6.0	12.0	n/a	2.0	6.0	12.0	n/a	0.0	6.0	0.0
1.2	0.0	4.0	0.0	1.9	0.0	4.0	0.0	4.6	2.0	4.0	8.0	1.3	0.0	4.0	0.0
15.0	0.0	8.0	0.0	44.0	1.0	8.0	8.0	n/a	2.0	8.0	16.0	17.0	0.0	8.0	0 0
7.7	0.0	4.0	0.0	14 5	0.0	4.0	0.0	17.8	2.0	4 0	8.0	12.1	0.0	4.0	0 0
1.5	0.0	2.0	0.0	6.5	0.0	2.0	0.0	2.8	0.0	2 0	0.0	1 2	0.0	2.0	0.0
0.5	0.0	7.0	0.0	2 4	2.0	7.0	14 0	2.5	2.0	7 0	14 0	1 4	0.0	7.0	0.0
8				45				86				17			
14				11				1				13			

Spain				Switzerland				Sweden				UK				Average					USA
Stastistic	Index	Weight	Score	Stastistic	Index	Weight	Score	Stastistic	Index	Weight	Score	Stastistic	Index	Weight	Score	Stastistic	Average	Index	Weight	Score	Statistic
13.6	0.0	8.0	0.0	25.9	2.0	8.0	16.0	35.6	2.0	8.0	16.0	21 7	0.0	8.0	0 0	369 4	23.1	1 0	8.0	8.0	29 2
44.9	0.0	9.0	0.0	70.8	2.0	9.0	18.0	76 1	2.0	9 0	18.0	66.0	2 0	9.0	18 0	956.8	59.8	1 0	9.0	9.0	55.6
40.7	1 0	8.0	8.0	n/a	1 0	8.0	8.0	40 7	1.0	8.0	8.0	43 9	2.0	8.0	16 0	561 7	40.1	1.0	8.0	8.0	n/a
25.0	0.0	6.0	0.0	n/a	2 0	6.0	12 0	n/a	2.0	6.0	12.0	70.0	2 0	6.0	12.0	210.0	42.0	1.0	6.0	6.0	90.0
2 1	0.0	4.0	0.0	3 0	2.0	4.0	8.0	1 1	0.0	4 0	0.0	5.0	2 0	4.0	8.0	40.3	2 5	1 0	4.0	4.0	n/a
24.0	0.0	8.0	0.0	n/a	2 0	8.0	16.0	40.0	0.0	8.0	0.0	81.0	2.0	8.0	16.0	605.0	43.2	1.0	8.0	8.0	355.5
10 3	0 0	4 0	0.	13 6	0.0	4 0	0.0	20.5	2.0	4.0	8.0	30.5	2.0	4.0	8.0	267.5	16 7	1 0	4.0	4.0	59.9
1 8	0 0	2.0	0.0	13.2	2.0	2.0	4.0	27.3	2.0	2.0	4.0	7.8	0.0	2.0	0.0	142.9	8.9	1.0	2.0	2.0	10.2
0.8	0.0	7.0	0.0	2.2	2 0	7.0	14.0	2.5	2.0	7.0	14.0	3.0	2.0	7.0	14.0	29.5	1.8	1.0	7.0	7.0	4.6
8				82				66				78				49					
15				2				5				4									

Source: Corporate Intelligence on Retailing, Eurostat, Euromonitor, D&T Estimates

5 The European Development Framework

5 The European Development Framework

5.1 Overview

As shown in Chapter 3, USA models are still evolving and have still to prove themselves in their own market place. Given the contrast in market conditions, the optimum approach to Meal Solutions for Europe is likely to come from a different perspective. Our market commentary demonstrates that anything other than strategic product development will result in, at best, underperformance of any Meal Solutions offering, and at worst, a compromised host environment and a threat to core brand equity.

In formulating a robust strategy for Meal Solutions in Europe, we have arrived at a series of hypotheses. They seek to present the basic building blocks for any development strategy, and, in some cases, they challenge current thinking. There are eight propositions listed on pages 10 & 11.

Each hypothesis will be reviewed in turn, with commentary highlighting the implications.

5.2 Hypotheses

5.2.1 Hypothesis I

> In Europe, consumers will see most Meal Solutions as an alternative to shopping for ingredients and preparing them at home. In the USA the comparison is with foodservice.

In the USA, foodservice is fast becoming the preferred choice when people buy their meals. In Europe, the fashion is still to use the food retailing sector. Allied to this is the relative immaturity of the QSR sector, where brand penetration and outlets per capita are low by USA comparison.

The frequency of dining out in Europe remains low by USA standards. A 1995 NRA study confirmed that more than half of Americans researched agreed it was no longer a big deal to eat out.

Regular weekly ingredient shopping is still the norm across Europe. In the USA, there is the '4.30 Phenomenon'. At 4.30pm daily, 45% of the population (around 100m) have not yet resolved the evening meal dilemma. However there is widespread resistance to buying ingredients and preparing the meal at home.

Additionally, there is a robust fresh food culture in Europe, with a strong regional cuisine heritage, reflected in QSR, Casual-Dining and Fine-Dining segments. In contrast to their American counterparts today's younger European food shoppers have firsthand knowledge of home cooking.

This hypothesis has significant implications for supermarketeers on both sides of the Atlantic. Figure 12 illustrates this fundamental difference in approach.

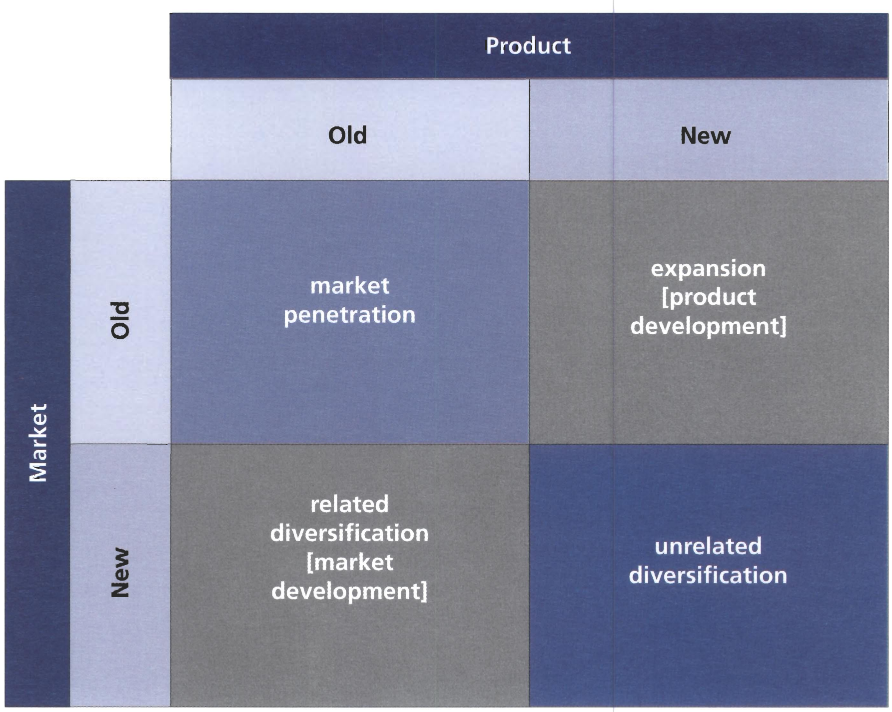


Figure 12 Strategic Development Options

The matrix above is a framework within which to analyse strategic development options. It works on the basis of assessing the potential of old (existing) products and markets against new products and markets recognising that, to be effective, strategy must be focused and cost-effective. Applying the matrix to the UK supermarketing context for illustration, the cause and effect of a variety of recent development strategies can be illustrated.

Market Penetration	this strategy has been the cornerstone of the UK multiples, utilising the superstore format to make the brands available to a wider audience.
Related Diversification	utilising a conventional product format to develop a new market is a strategy currently being followed by some of the multiples as they start to enter the mainland Continent, particularly central and eastern Europe.
Product Development	recognising the product life-cycle and the need for differentiation and to seek constantly competitive advantage in a crowded marketplace, supermarkets have been adept at NPD, exemplified by the evolution of bakery, wine and own-label goods.
Unrelated Diversification	can be successful but is the riskiest of all strategies, attempting to develop new products outside the core skills area to attract new markets. Learning curves are steep and costly, with aggressive responses from existing operators within the new product sector, mitigated by potentially high returns. Entry by supermarkets into financial services is an example of this strategy in action.

In the USA, as a consequence of structural changes in market conditions – principally those issues reviewed in Chapter 3 – supermarketeers have been forced to develop new products in their Meal Solutions programmes to attract new markets, i.e. an unrelated diversification strategy.

In addition to the risks previously described, unrelated diversification has other downsides:

- management focus is diverted away from core business
- consumers are invited to compare the new market entrant against that market's benchmark operator
- significant expenditure on plant and new product selection and sourcing, possibly incurring divided supplier loyalties as competition between historically discrete sectors becomes overt
- intensive human resources [HR] activity, principally recruitment of new specialists, orientation, training and heightened supervision.

This analysis tends to rule out Meal Solutions development by acquisition. Even if a suitable foodservice organisation existed – successfully active in Meal Solutions – acquisition and absorption of such a player would amount to unrelated diversification. The same is true of the acquisition of a food retailer by a foodservice multiple.

Culturally the two segments are polarised and not easily reconcilable. Much of the friction and resultant inefficiencies arising from this poor fit can be assigned to the cultural differences illustrated in Figure 13, where the net consequence is an unacceptable risk:reward profile where commercial return on investment is questionable.

In Europe product development is the logical next step, involving a gentle divergence from ingredients food shopping towards quality convenience food shopping. Thus in Europe we envisage supermarkets supplementing stores with Meal Solutions rather than substituting conventional food retailing with revolutionary new products or services.

Foodservice	Food Retailing
market-focused	cost control/logistics-oriented
autonomous cells	paternalistic
perishable/short cycles	durable/medium term cycles
margin management focus	volume-led
craft skills	system expertise
low tech	high tech
explicit customer interface	implicit customer interface
focused around day-parts	widespread hours

Figure 13 Characteristics of Foodservice and Food Retailing

Ethnic meals, however, present a paradox. Consumers of this component of Meal Solutions fall into four camps:

- regular diners at ethnic restaurants
- regular preparers of ethnic food
- new markets stimulated to trial an ethnic range out of convenience
- any combination of the above.

Depending upon the motivation of consumers for ethnic Meal Solutions, their desire for authenticity and quality will vary. A regular consumer of ethnic food will look for connoisseur products, whilst a novice will have no frame of reference within which to assess the product. The answer lies in accurate positioning of

Meal Solutions within the core brand proposition – i.e. a premium store should sell high quality authentic versions, a discounter, lesser products with strong value connotations – and a detailed understanding of customer profile and lifestyles.

5.2.2 Hypothesis II

> Any threat to European supermarkets from the foodservice sector is potential rather than actual. There is time to act to protect food spend in the future.

There is a second fundamental difference in the two markets. Commercial foodservice in Europe is characterised by several attributes, setting it apart from its USA counterpart and weakening its ability to dominate the overall food market:

- fragmented supply, with the highest market share dominated by independents
- well-established, regional quick service offers - tapas, pizza and churros
- site availability for new foodservice development
- legislative controls restricting market entry and development.

From the European supermarkets' perspective, their national presence and distribution networks position them advantageously for further market development.

Strategic action taken now will not only enhance European supermarkets' position, but create a suitable framework for defending their share of food sales in the future. If the USA Meal Solutions model might be interpreted as reactive, there is scope for the European approach to be proactive.

One must, however, guard against complacency. Market expression based on existing products will not necessarily be provided. Focused new product development (NPD) is required to make the transition to drive market expansion, otherwise food consumers may change their habitual patterns of food buying and consumption as they have done in the USA.

5.2.3 Hypothesis III

> Full in-store foodservice, involving complex preparation and production is too costly and carries too many risks in relation to the rewards.

This hypothesis argues that the risk profile attached to operating in-store kitchens across a number of supermarkets, whether at individual store level or regional central production units, is unacceptable. An approach involving the latter merely diverts the production focus and radically increases costs.

These prohibitive costs – both tangible and intangible – are listed below:

- capital costs – specialist preparation, production and temperature controlled storage equipment, uniforms, etc.
- property costs – real or nominal construction and occupation costs for the kitchen
- revenue costs – payroll at hourly rates higher than conventional retail employees, cost of materials to be purchased from unconventional sources, wastage, consumables, etc.
- direct overheads – utilities, sales promotion, administration and general
- indirect overheads [store] – management, Quality Assurance [QA], inter-departmental liaison
- indirect overheads [company] – senior management, research & development [R&D], QA, liaison with legislative bodies [Environmental Health], fire, planning, etc.
- financial – cost of funding, depreciation.

These costs are prohibitive in their own right, but when considered in the context of modern supermarket systems, can be a greater problem. One of the key building blocks of contemporary supermarketing is economy of scale, driving down unit cost and generating margin. The operation of kitchens in individual stores is entirely contrary to this.

5.2.4 Hypothesis IV

> Meal Solutions Now has relatively small potential. Meal Solutions Soon or Later will present greater opportunities.

This hypothesis proposes that the optimum focus for European supermarkets is the two areas of Meal Solutions Soon and Meal Solutions Later. This is supported by the following rationale:

- Meal Solutions Soon and Meal Solutions Later most closely reflect the current food shopping trend
- Meal Solutions Now is based on the QSR concept. Any incursion into this sector with identical products is likely to set up a direct comparison with established foodservice operations. The supermarket will inevitably come a poor second
- supermarkets' expertise lies in the latter two areas rather than the former
- the costs and risks associated with Meal Solutions Now are disproportionately high and the returns unacceptably low
- space allocated for in-store eating will show a lower rate of return than almost every other supermarket category
- market trends indicate that there is significant growth in markets and margins to be gained from added-value products in the Meal Solutions Soon and Later categories
- the demand for Meal Solutions Now occurs around traditional meal occasions. This presents supermarkets with the same set of problems that has long challenged foodservice operators, without satisfactory resolution:
    - product is offered across the day-parts, necessitating early production and extended display time

      or

- product is tailored to the day-parts, in which case a complex menu structure needs to be developed and resources allocated to assemble and break down food displays.

  In the former, quality control of menu items is impossible, and the displays become counter-productive; in the latter, shoppers in the non meal-time periods are faced with empty display cabinets, contrary to retailing convention.

These compelling arguments do not obscure some key strategic benefits from incorporating a Meal Solutions Now module into a Meal Solutions mix:

- in specific locations – e.g. near to major office complexes – a commercially viable Meal Solutions Now opportunity may present itself
- in the same way that an in-store bakery might be regarded as a strategic supermarket category with a strong multiplier value – driving frequency of shop and sales in other impulse-oriented categories – Meal Solutions Now may prove to be a magnet, particularly in the locations suggested above
- unless the store is located in close proximity to areas visited by large numbers of people, Meal Solutions Now sales are not likely to materialise at commercial levels. However, there are a series of qualitative benefits Meal Solutions Now can bring about, such as:
  - freshly prepared food, if strategically located, can reinforce the overall Meal Solutions proposition and assist in repositioning a store
  - it provides an additional reason to visit in a market where any product differentiation is a powerful competitive advantage
  - it anchors shoppers in store, and provides a semi-captive audience to target core category merchandising
  - the market for the more QSR-oriented Meal Solutions product seems to be different from the core supermarket base: the former tends to be younger, and the latter, older. Meal Solutions Now might therefore change the demographics of shopper traffic.

Achieving the balance between exploiting opportunity and avoiding risk, seems to be satisfied by the following formula:

- emphasising Meal Solutions Now only if high levels of demand for this component are envisaged
- ensuring that product lines are selected to avoid head-to-head comparison with local branded QSRs
- using price strategically to connect any Meal Solutions Now offering to the core supermarket value proposition, rather than competing tactically with local QSRs
- keeping in-store seating to a minimal level, both in terms of number of seats and type of seating.

5.2.5 Hypothesis V

> **It is unlikely that a competitive** Meal Solutions offering for Europe will **be achieved through one category,** i.e. it is more likely that a mix **of categories involving** products from a range of temperature controlled **states will** be required.

The market for Meal Solutions in Europe is mixed. Demand for Meal Solutions offerings will vary by demography, ethnicity, day-part, dietary requirements and food ethics. Demand will be differently directed depending upon week-day or weekend shopping and whether functional or social feeding is intended. Lastly, Meal Solutions are often purchased to resolve the household meal dilemma, namely feeding different family members at different times.

An additional key aspect is buyer behaviour, and the stage shoppers have reached in the consumer cycle, i.e. whether they have made a total or partial transition to a new form of meals shopping, or whether they retain older habits. Given this, it is highly unlikely that one single product or product group will satisfy consumer requirements.

Furthermore, each European customer base has its own perceptions of convenience food and its own preferred tastes, i.e. frozen food has a long history in the Scandinavian countries but may have questionable quality perceptions amongst some UK consumers.

Different supermarket brands will invariably place more emphasis on certain Meal Solution categories as a consequence of the brand values, historic expertise, strategic links with suppliers, perceived market demand, margin expectation and supply chain constraints.

The implication of this hypothesis is that there needs to be effective category management within the new Meal Solutions arena. The optimum Meal Solutions mix for each supermarket multiple is the mix which [a] best reflects the brand's proposition and [b] can be implemented on a commercially sustainable basis.

5.2.6 Hypothesis VI

> **Chilled and frozen meals** are likely to play a significant **role in any effective European Meal Solutions** programme.

We contend that chilled and frozen meals will be essential parts of any commercially viable Meal Solutions offering in Europe. Sales increased by 50 per cent across Europe between 1990 and 1995. The rationale – and the focus is on meals, rather than generic frozen or chilled products – is supported by four factors:

- in common with Americans, European consumers accept this type of preservation of foodstuffs, albeit that chilled meals are in a more advanced state in Northern Europe
- the quality of the product is at a high standard and is improving constantly
- the supply chain controlling these product areas is strong and, increasingly, becoming pan-European

- this is one area which supermarkets own and it is a category which offers width as well as depth. There are, for example, at least four sub-categories in this meals area:

  - dietary – i.e. low calorie, low fat
  - ethnic – the leading cuisines tend to be the Asian ranges such as Chinese, Indian, Vietnamese, Thai
  - vegetarian
  - meals for children and seniors.

  This width provides a relatively low risk opportunity to target a wide audience with a range of varying culinary habits and dietary needs. Experience has demonstrated that once consumers become habitual chilled or frozen meals consumers, perhaps through dietary preference, they are amenable to other non-specialist chilled or frozen meals and convenience meals in other forms.

  This category generates at least four areas of competitive advantage over conventional QSR and Casual-Dining offerings:

  - range – allowing the supermarket to incorporate a wide spread of ethnic cuisines
  - safe experimentation – for certain demographic groups, the ability to test a homogenised version of an ethnic dish with all the reassurance of the core supermarket brand is a huge benefit compared with the sometimes questionable quality assurance of an independent restaurateur
  - price/value – the manufacturing economies of scale provide the platform for supermarkets to price chilled and frozen meals on a competitive basis, compared to foodservice cost of sales
  - seasonality – part of the raison d'être of this category is the ability to offer product lines all year round when the fresh alternative is unavailable or prohibitively priced.

5.2.7 Hypothesis VII

> Quality and price are given factors: convenience, variety and wholesomeness are key differentiating factors for European supermarkets.

This proposition does not imply that quality and price are peripheral factors, but rather that they are the standards of contemporary food retailing across all supermarket segments. They clearly must have currency in any area of new product development such as Meal Solutions.

This hypothesis proposes that the constituents of value – quality and price – should automatically be incorporated into a new Meal Solutions product, in the same way that these attributes were transferred when supermarkets made incursions into wine, petrol or banking activities. To do otherwise would be to threaten each supermarket brand's carefully nurtured price positioning statement.

This leaves the focus of the Meal Solutions programme in three key areas.

- Convenience – evidence from the USA and embryonic Meal Solutions activity in Europe highlights this as the dominant attribute, reflecting the essence of consumer demand for Meal Solutions products. Ease of access to the products and convenience of use are undoubtedly the key drivers of Meal Solutions opportunities.
- Variety – Meal Solutions activity reflects a change in consumer behaviour aimed at resolving a perpetual problem: what to eat as today's meal? Implicit in this are at least three challenges for the consumer:
    - how can I produce the meal in the time available?
    - how can I produce the meal at the right cost?
    - how can I avoid loss of interest in the menu and still satisfy individual needs without resorting to ingredient shopping?

- Wholesomeness – awareness of health and a focus by mainstream markets on what is commonly referred to as 'healthy eating' creates a valuable opportunity for supermarkets to capitalise on Meal Solutions.

  The implications of this hypothesis are extremely significant. They counter the assumption, in the USA, that restaurant quality meals have to be offered, which for Europe, is as inappropriate as the phrase Home Meal Replacement.

5.2.8 Hypothesis VIII

> Any effective Meal Solutions offering is likely to bring about changes to existing food shopping patterns. Supermarkets are modular: there are fixed aspects but store configurations can be re-arranged.

The Meal Solutions evolution in Europe and the revolution in the USA have already commenced, with varying degrees of acknowledgement by retailers and customers.

Structural changes in society, economic systems and lifestyles are forcing consumers to change habitual approaches to life's activities. Why would feeding the household be exempt?

Food shoppers are starting to make these changes: Store managers in our European familiarisation tour confirmed that shoppers:

- were starting to shop more frequently, purchasing less per trip but changing the profile of the basket of goods
- were bypassing the intended customer flow and heading straight for the ready meals section. At a Kesko store in a Helsinki suburb with 25% local unemployment (albeit with high levels of State support), we witnessed Meal Solutions shoppers buying single baskets of goods, primarily Meal Solutions, on a daily basis.

A related issue is store layout. Most supermarkets have revolutionised their efficiency in such areas as EPoS and supply chain management. Other areas –

shelf-replenishment and strategic management of the store layout – remain more conventional.

Traditionally, food stores used produce as their principal merchandising aids, attracting passing trade by the vibrancy and freshness of the fruit and vegetable displays and then drawing customers into the core of the shop where packaged goods are offered. This technique has proved successful in a variety of trading environments and has been continued today in larger store formats.

However, the relationship between supermarket brand and customer is now highly complex and less personal, with users probably taking up a range of service and product offerings – petrol, banking services, loyalty rewards – as well as food and lifestyle goods. This relationship is underpinned by the chain's brand equity, itself far removed from the specifics of produce freshness and quality, driving habitual usage and strong loyalties.

Of secondary significance is the issue of location. The modern development in Europe is for stores to be increasingly located at the edge-of-town or out-of-town. Given, then, that the bulk of supermarket estates are acting as destination venues, the rationale for retaining a produce merchandising tactic becomes questionable.

We understand the subsidiary argument and its attendant psychology for enticing customers to fill baskets and trolleys early on into the store visit, and the benefits of having staff [replenishing produce] at the front of the store, but the drawback is the problem of placing perishable produce into the bottom of a trolley or basket and later adding heavy bulk items on top; this is neither logical nor desirable.

This hypothesis therefore concludes that there is scope for re-arranging categories within modern stores to achieve supermarkets' strategic aims whilst simultaneously satisfying consumers' needs for ease of meal shopping.

6 A European Strategy for Meal Solutions

6 A European Strategy for Meal Solutions

6.1 The Strategy in Outline

A consensus on the eight hypotheses could provide a platform for formulating a robust pan-European Meal Solutions strategy, which is fundamental to successful product origination and development. The need for strategy is argued thus:

- a strategy for Meal Solutions will provide a common vision within organisations, and sit comfortably alongside core brand strategies dictating overall market positioning and competitiveness
- a development framework is established, allowing controlled local interpretation and fine-tuning
- tactical decisions such as selection of individual product lines and pricing are put into proper context
- a clear strategy enables managers to react sensibly to changes in market conditions, avoiding tactical responses for short-term gain.

Our strategy for Meal Solutions in Europe is an Expansion or Product Development strategy. This differs from the general approach to Meal Solutions in the USA, which largely reflects an Unrelated Diversification strategy [see Figure 12].

Our strategy to enable supermarkets to secure an advantage from Meal Solutions simply stated is:

> Working from existing strengths and recognising emerging market trends, European supermarkets should seek to optimise market share through low-risk development of a Meals Solutions product mix combining relative quality with absolute convenience.

Each component of this strategy is examined below.

6.2 Existing Strengths

There are several inherent strengths to exploit:

- location – European supermarkets have significant presence in key in-town and edge-of-town locations, with existing portfolios of valuable sites adjacent to workplaces and residential neighbourhoods. How is a new market entrant into the UK, for example, going to acquire 500 plus sites overnight?
- amenity – supermarket sites, particularly edge-of-town formats have high levels of customer amenity, notably free well-lit, safe parking, taxi pick-up points, etc.
- strategic partnerships – strong existing relationships with food manufacturers rather than merely food distributors
- purchasing leverage – as a consequence of economies of scale supermarkets have the ability to drive every-day low prices offering sustainable value to consumers
- variety – the high number of stock keeping units [SKUs] offered by supermarkets provides advantage through menu variety
- traffic flows – supermarkets benefit from significant levels of throughput of mid to upper demographic consumers. This profile is the elusive target for many QSR and Casual-Dining operators
- relationship with consumers – contemporary supermarkets have built up strong brand equities and image with their consumers, supported by a high frequency of shopping and recently reinforced through loyalty card programmes. The quid pro quo is a relatively high level of trust from consumers creating a powerful platform to introduce new product areas
- marketing expertise – supermarkets are experienced in mass marketing techniques. Creating awareness and stimulating trial of any new Meal Solutions offering should not present any difficulty
- capital – supermarket groups possess significant amounts of fiscal and intellectual capital as well as strong cash flow positions to apply to initiatives such as Meal Solutions.

In contrast are the structural weaknesses present in foodservice which will only grow over time:

- site availability – a common barrier to entry and development in the European foodservice sector is acquisition of good sites, particularly those that reflect the major shifts in workplace and lifestyle
- real estate costs – property is a finite resource, driving up the cost of good sites, often out of the reach of independent operators
- productivity – smaller sites operated independently will invariably achieve lower productivities and therefore higher unit labour costs
- materials costs – the majority of foodservice groups are small by comparison to supermarket multiples and unable to achieve the higher levels of supplier discounts and advantageous terms associated with the food retail sector
- promotional leverage – given its relative infancy in Europe, the bulk of the foodservice sector [QSR notwithstanding] is relatively inexperienced with regard to managing the marketing mix strategically.

6.3 Recognising Emerging Market Trends

One of the prerequisites of the European Meal Solutions strategy is to recognise that two types of food shopping exist in parallel within the supermarket context:

- conventional ingredients shopping – traditional market segments buying traditional ingredients for meals to be made up from scratch
- quality convenience shopping – emerging market segments focusing on added-value convenience goods to complement their lifestyles.

These experiences are not mutually exclusive, but are occasion-driven: i.e. the same shopper may choose to switch between the two, perhaps on a weekday to weekend basis. The strategy aims at attracting new or disaffected markets whilst retaining existing customers.

6.4 Optimise Market Share

The strategy seeks to make the best use of the opportunity rather than purely maximise sales revenue. As the USA models have demonstrated, there are several areas of traditional foodservice business which might be targeted, most notably social and corporate functions. The strategy dictates that these opportunities must be appraised in context, applying commercially sound criteria:

- can the business be effectively transacted at commercial rates leading to worthwhile profit contribution?
- are the resources in place to deliver the client's requirements, or will these have to be arranged specifically for this business?
- how does the supermarket product compare with conventional offerings by established competitors?
- what are the risks to the core supermarket operations, brand equity and image?

The key to this component of strategy is for a supermarket to compete for incremental business only where it can do so on its own terms. Many of the problems witnessed in the USA have stemmed from supermarkets having unrealistic aspirations about their capabilities to compete and/or finding that peripheral trading opportunities start to dictate core policy and operations.

6.5 Low Risk

Risk, in this context, emanates from NPD work in Meal Solutions to:

- the supermarket's carefully nurtured brand equity
- food safety, health and hygiene
- the supermarket's value proposition underpinning [the brand's] market positioning.

Consensus with Hypothesis III acknowledges that pursuing a full in-store production programme results in:

- borrowing-in the worst attributes of foodservice – demanding production schedules, long hours with early starts, poor working conditions
- rejecting the added-value aspects of foodservice – ambience and service – which support the premium price position
- applying a [supermarket] brand which has little strength in that area.

6.6 Product Mix

As we have argued in discussing the hypotheses, any sustainable approach to Meal Solutions will involve a carefully constructed and managed mix rather than a single line solution. This modular approach allows flexibility at the store and site level within clearly defined strategic parameters.

6.7 Relative Quality

In Europe, the benchmark for Meal Solutions remains within the food retailing sector, in contrast with the USA where the foodservice sector is rapidly becoming the first choice destination for meals provision. This suggests that the 'restaurant quality' tag associated with USA Meal Solutions activity is not only inappropriate for Europe, it is also dangerously diverting on two counts:

- there is no evidence that supermarkets are able to combine this type of product and level of quality on a consistent, sustainable basis
- there is no evidence that this is what the majority of consumers hope for in their purchases of Meal Solutions from supermarkets.

Qualitative research indicates that in most instances consumers are looking for the home-cooked quality of meals they would prepare themselves if they had the time and inclination. Relative quality therefore, in this strategic context, proposes quality which is relative to:

- the supermarket's existing quality threshold, itself derived from the corporate brand strategy
- the supermarket's price position, whether this is at hard or soft discount level, superstore or hypermarket level
- the quality of Meal Solutions offered by competing supermarket brands
- the quality of Meal Solutions offered by local foodservice operators
- the level of added-value and convenience offered, recognising that this trade-off is made regularly by consumers in all walks of life.

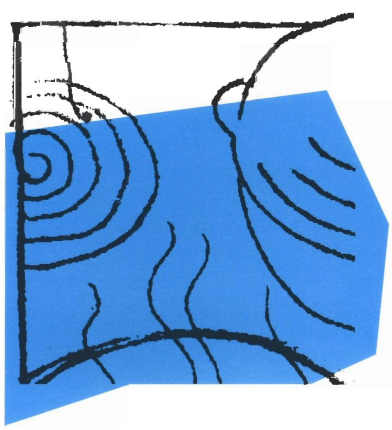
The quality threshold is not a constant and will vary in the context of ethnic meals and home-entertaining.

6.8 Absolute Convenience

Even the USA model has demonstrated that where customers will trade down on quality, they will reject Meal Solutions products which are difficult to access or use. In regular industry surveys McDonald's, for example, scores the highest in only one category – convenience. Similarly, according to Burger King advertising campaigns run in the UK in Spring 1998, in recent blind tastings carried out between Burger King and McDonald's, 288 respondents out of 484 preferred the taste of the Burger King product, yet average sales per outlet at McDonald's are around 20 per cent higher. Supermarkets are known for their quality control. If they can now focus on convenience, the combination is unbeatable.

With this framework fully expanded upon, the tangible form of this strategy is explored in Chapter 7, where possible Meal Solutions models for Europe are proposed.

7 Meal Solutions Models for Europe



7 Meal Solutions Models for Europe

7.1 Overview

The project brief is explicit in its requirements. From the basis of an exploration of the headline trends in the USA and Europe, it directs the European study to concentrate on the strategic level, answering questions such as:

- where in the progression from ingredient shopping to ready-to-serve to eat[ing] on-the-premises ...do most opportunities present themselves for supermarket operators?
- how can supermarket operators position themselves to take advantage ...to defend 'share of stomach'?
- what are the likely benefits and pitfalls?

Whilst there are no doubt several options for Meal Solutions in Europe, we have developed a model which provides retrofitting opportunities. The model is modular to allow scope for local fine-tuning. It is a conceptual blueprint designed to convey basic principles and give direction. It is not a working drawing. In addition, as a further stimulus to the reader's thinking, we have developed a second, more futuristic model that may further challenge conventional thinking.

7.2 The Meal Solutions Centre

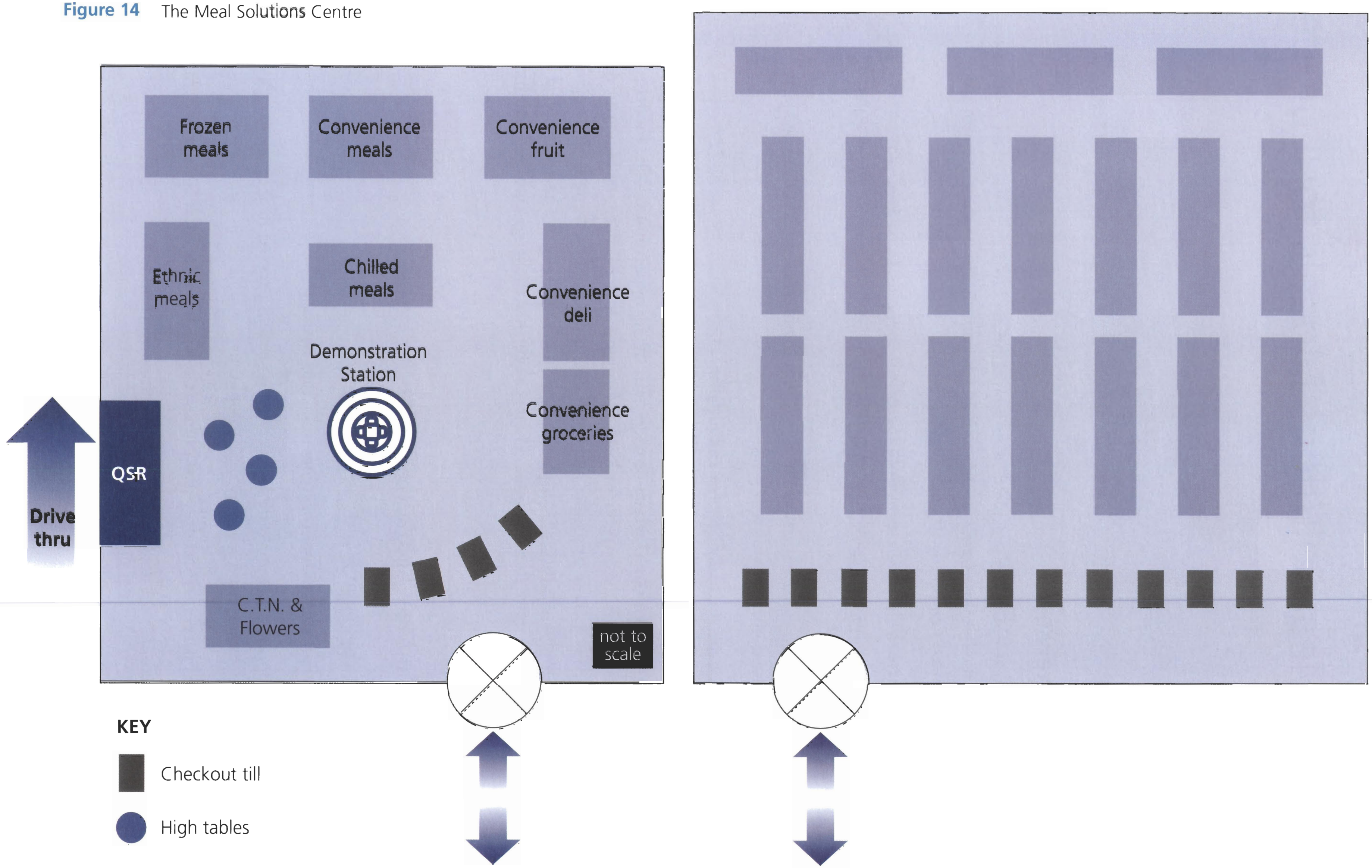
7.2.1 Description of Model

As figure 14 shows, two types of use are envisaged:

- shoppers enter the store via every entrance and proceed to shop in all areas purchasing from a variety of categories; or
- shoppers enter the store and purchase solely from the Meal Solutions Centre.

Section 7.2.3 describes the model components in detail.

Figure 14 The Meal Solutions Centre



7.2.2 Key Attributes

The bulk of the store reflects a conventional supermarket, with every main category incorporated, with Meal Solutions products extracted.

The new Meal Solutions Centre is a modular mix of a range of product groupings, incorporating:

- QSR – pizza and rotisserie chicken
- Ethnic meals counter
- Chilled and frozen meals section
- Convenience produce
- Demonstration station
- Convenience deli section incorporating sandwiches
- Distress groceries section
- CTN [confectionery, tobacco, news], with flowers
- Dedicated Check-Out
- Drive Thru' window.

7.2.3 Commentary

Arguments for the selection of the mix are as follows:

- **QSR – pizza and rotisserie chicken**

The rationale for the inclusion of QSR, and why, specifically, pizza and rotisserie chicken is underpinned by the following factors:

- hot fresh-food at front of store underlying the Meal Solutions message and re-positioning this side of the store

- chicken and pizza are two of the three proven global staples of QSR. The third component is burgers, an altogether more complex composite product with an existing strong European-wide identity in McDonald's
- both products can operate on display and/or call-order basis
- the combination avoids competing directly with foodservice operators
- low levels of staffing, in terms of coverage and skills, and supermarkets are already experienced in handling high volumes of both products
- existing inventories and supply chains are utilised
- traditional supermarketing strengths – specifying, buying, holding, display – are deployed
- promotes alternative/additional distribution channel i.e. drive-thru', in conventional and out-of-hours
- chicken is an existing food retailing staple, with strong growth forecasts based on nutritional trends shifting consumers from red meat to white
- both offer 'kitchen theatre' and an obvious customer-service interface
- both provide quality assurance as single-item staples with simple, programmable production whilst offering a high number of finished product permutations
- both products offering good holding capacity, promoting Meal Solutions Now, Soon and Later.

The strategy for Meal Solutions allows for category expansion as long as this is within the confines of the operating framework. Local changes might include national quick-service favourites such as bocadillos and empanadas in Spain or wurst in Germany.

For clarification, the strategy excludes QSR products which:

- require complex preparation, production and assembly: the opportunities for non-performance are prohibitive

- have an existing strong base. There is increasingly one single reference point for burgers and to invite direct comparison with an international benchmark of such standing is counter-productive
- are known value items [KVIs], encouraging direct price and value comparisons by customers
- have poor transportation, holding and regeneration characteristics, e.g. Mexican cuisine.

These criteria therefore recommend, for example, that supermarkets do not attempt to retail burgers nor any form of hot entrée such as pasta or rice dishes. Our research concludes that the risks of even one hot entrée on display far outweighed the rewards.

- **Ethnic Meals**

These meals provide variety, recognised nutritional attributes and a set of differentiated tastes, spices and flavours. The combination of these benefits, packaged conveniently, and merchandised so as to allude to the romance and excitement of international travel, is unbeatable. In this way, supermarkets are able to break up the monotony of the weekly household meal programme.

- **Chilled and Frozen Meals**

Chilled and Frozen Meals will play a key, indeed critical, role in any European Meal Solutions programme as a consequence of a number of benefits, promoted by retailers and perceived by consumers.

Frozen and Chilled Meals:

- are relatively easy to buy, transport, store and prepare
- override seasonal fluctuations
- offer massive potential variety
- enable 'safe' exploration of esoteric and ethnic foods

- give consumers access to otherwise restricted categories such as ethnic foods
- provide consumers with a sense of security gained via the long shelf life and quick-regeneration cycle of the products.

Countering these benefits, our qualitative research identified the following negative attitudes held by consumers towards frozen and chilled meals:

- to sophisticated palates these products can be perceived as bland and homogenised
- the range of conventional portion sizes is perceived as too narrow and focused towards individual sizes
- prices are perceived as high, but not high enough to deter the trade off to a convenience offering
- the products in their packaged state can be seen as unattractive and impossible to appraise in the way that a consumer might judge fresh produce.

- **Convenience Produce**
This category includes all the added-value fruit and vegetable ranges, leaving the produce staples to the main produce department located within the traditional ingredients zone.

The rationale for this component is that consumers of Meal Solutions are seeking to 'bundle' the meal, marrying convenience with quality. All components of the bundle must be complementary: entrées which take ten minutes to regenerate will not be complemented by vegetables which take twenty minutes to prepare.

In addition to these premium processed fruit and vegetable items, we envisage a selection of raw goods which are often used as meal supplements or enhancements by consumers, e.g. melon and bananas as ready desserts, grapes for cheeseboards.

- **Convenience Deli**
The pattern emerges, with conventional categories in one zone and the parallel convenience format in the other. We envisage, in this model, a fully operational

delicatessen in the ingredients-shopping zone and in the Meal Solutions wing, a convenience version, focusing on meal components such as prepared cold meat, salads and sandwiches.

The last two products are potentially high growth areas which seem to transcend most national boundaries. Salad is a strategic product, combining freshness, colour, a range of tastes and textures and innumerable portioning permutations. There are two conventional options for display: pre-packaged or via a salad bar.

Essentially a British invention, the sandwich has transformed itself into a sophisticated snack, equal to a full meal by simple addition of a portion of convenience soup or salad. Several local varieties exist, but even in France, for example, sales of the triangular cut multi-packs have shown phenomenal growth in recent years.

The strategy for Meal Solutions in Europe stated earlier gives an unequivocal framework within which to appraise the make-or-buy debate for sandwiches. *Existing strengths* in this context relate to supermarkets' capabilities in specifying product and exercising buying leverage. *Low risk* means avoiding the myriad of threats inherent in any high volume sandwich production programme – to food safety, product quality, core brand values. *Relative quality* for sandwiches is achievable from a widening selection of specialist suppliers, and *absolute convenience* is generated through retailing a user-friendly product, complete with in-transit packaging, via self-service. Another key attribute demanded by consumers – variety – is also secured in this way.

In summary, to implement an in-store sandwich production operation, unless there were unique local characteristics applying, is counter to the recommended strategy for Meal Solutions in Europe.

- **Convenience Groceries**
  The final component is Convenience Groceries, continuing the policy of separating categories between the two different store environments. The term is used here to describe 'essentials', such as toiletries, driving consumers into shops to replenish.

There are three chief reasons for this category's inclusion in this part of the store:

- the presence of this range may be sufficient to persuade a traditional food shopper to test the Meal Solutions centre, avoiding the aisle-by-aisle conventional shopping habit of the full-store
- for the liberated food shopper intent on buying Meal Solutions, access to a limited range of convenience groceries allows a more complete shop and may prevent these types of customers looking elsewhere for these goods
- the reverse may also be true: Convenience Grocery itself may act as a destination, drawing in shoppers for the store to merchandise the Meal Solutions offerings.

Other components within the Meal Solutions Centre include a florist, confectionery, tobacco and news section [CTN].

The inter-relationship of the two store sections is critical, and closely related to Hypothesis VIII. By leaving the conventional side of the store virtually intact, traditional shoppers should not feel alienated: ease of flow between the two environments is paramount to promote cross-over and stimulation of existing markets towards the opportunities offered by the new proposition.

By extracting the Meal Solutions items from traditional categories and bundling them together in a logical and attractive environment, changes in consumer behaviour can be effected for mutual benefit. The nature of the inter-relationship of the two sections is reinforced by the checkout policy: basket shoppers are able to use either bank of check-outs, but are encouraged to use the Meal Solutions express tills; trolleys must use the conventional tills to the right-hand side. None of this, of course, prevents trolley shoppers from entering and shopping from the Meal Solutions Centre. Indeed, this is to be encouraged.

An additional fundamental argument for the segregation of products is to prevent unfavourable price comparisons between staples and added-value formats of the same core products.

This uses the 'stick and carrot approach' to good effect. The obvious analogy is with recycling initiatives: it is only when contractors start to place restrictions on the volume and type of waste which they collect, that householders begin to separate and package rubbish accordingly. The result is mutual benefit, with the added and elusive 'feel-good' factor for the consumer.

7.2.4 Strengths and Opportunities

This model has the following advantages:

- it facilitates conventional and Meal Solutions shopping, preserving the difference between them, encouraging the latter trend whilst avoiding alienating subscribers to the former
- it creates a sense of critical mass to anchor Meal Solutions at the appropriate level, stressing to shoppers the range of possibility and amenity
- passive Meal Solutions categories such as chilled and frozen are invigorated through association with active categories – QSR, Produce and Ethnic Foods
- it is a very simple proposition, further clarified through habitual use
- it provides the opportunity for late trading as a 'category killer' C-Store format
- the risks and costs associated with a full in-store foodservice programme are avoided
- Meal Solutions Now, Soon and Later are satisfied
- it has relatively low capital investment
- it provides a range of opportunities for supplier involvement and joint funding
- it constructs a valuable service platform, with highly visible staff at QSR, Ethnic Foods and Demonstration. These are dedicated customer service employees, not part-time shelf-stackers
- there is an opportunity to add a further distribution channel via a drive-thru' window. This should both underline the convenience aspect of the Meal Solutions mix and widen the proposition's appeal
- the configuration of the Meal Solutions Centre presents a powerful merchandising arena, promoting a number of shopping permutations, reflecting

the fragmentation of shopping customer bases and the variety of lifestyles:

- The Inclusive Shopper – the once weekly total store shop incorporating both sections
- The Sampler – ease of flows between the two sections promotes risk-free trial
- The Knowledgeable Customer – for those innovators and early adopter consumers, the liberated food shoppers who have made the transition, the left-hand side of the store is a treat
- On the Go – workers rushing in to buy QSR at lunchtime, for example, are targets for merchandising of other Meal Solutions categories in close proximity, i.e. the evening meal
- The Mini-Holiday – the classic time-poor:cash-rich sector can recharge in the Meal Solutions Centre, safe in the knowledge that tonight's meal is resolved, and rewarding themselves via lunch, magazine and flowers whilst watching a live demonstration
- The Night-shift – late-night essentials shopping is addressed through the use of the Meal Solutions Centre as a C-store. In this context the Convenience Grocery section becomes significant. A recent UK study by the Future Foundation [sponsored by BT and First Direct], *The 24 Hour Society*, confirms the growing appetite for all-day access to retail, entertainments and services.

  The results of this consumer and business study indicate that 30 to 50 per cent of the population wants access to these types of venues throughout the night. 75% of consumers believe companies should provide out-of-hours customer care. The report identifies two discrete segments:

  - younger shoppers, seeking 24-hour opening
  - 25-45 year olds, mostly with children, house-bound with high incomes and time pressures, preferring to order goods and services via telecommunications.

7.2.5 Weaknesses and Limitations

Throughout this study there has been consensus, between researchers and client groups, that the optimum approach to Meal Solutions in Europe will not rest on some spectacularly complicated NPD programme or technological innovation, but rather on a strategic re-positioning of products currently available to the market. No strategy is foolproof. All strategies have their weaker links, which can be compensated for if identified prior to implementation. The potential limitations associated with this model's approach to Meal Solutions are acknowledged and addressed below.

- **QSR menu fatigue** – The strategy implicitly limits the range of QSR within the overall mix to those components which can be operated safely and to adequate quality standards. Chicken, Pizza and Sandwiches are all products with which supermarket multiples are familiar and are proven staples across western Europe, but there are other leading QSR products for which high demand exists. Regular users of newly configured stores may become tired of a limited QSR product range: however, in contrast to the USA model which has resulted in the consumer looking elsewhere for his or her meal purchase, the European Meal Solutions consumer should consider the range of other meal opportunities available in fresh, chilled or frozen forms.
- **Restricted trading** – As a consequence of the deliberately limited QSR menu range, the inability to trade across the whole day is recognised. However, some European supermarkets have found it difficult to exploit profitably, and at the brand standard, breakfast opportunities
- **Catering opportunities** – The ability to react to some catering/function requests may be impaired but we regard these as marginal business opportunities in a segment with established, specialist operators and a largely price-driven customer-base. A large proportion of functions opportunities – the corporate and social stand-up finger or fork-buffet – might still be satisfied within the strategy through the harnessing of a supermarket's quality-convenience range of buffet food and canapés. Any attempt to compete with caterers should be regarded as unrelated diversification, with its attendant risks.

- **High-impact image** – Qualitative research indicated that the intensity of the environment may at first be intimidating to older, more traditional shoppers. Store remodelling might be accompanied by clear signs and the presence of knowledgeable staff to direct customers, answer queries and provide reassurance
- **Demonstrations** – Viewing and tastings at the Demonstration Station may become congested at peak trading times. Stations must be designed to maximise viewing without disrupting customer flows at this point in the store. Congestion will invariably be addressed at an operational level
- **Staffing** – Staffing levels around the product launch are likely to be high, with service required at the QSR, Ethnic Meals, Demonstration Station and Check-out in addition to the usual shelf-stackers and supervisory presence. These levels should reduce as employee competency is enhanced, and, indeed, the new customer:staff interface should be welcomed as a major area of competitive advantage over competing Meal Solutions formats.

7.3 An Alternative Approach – The Deconstructed Store

The Meal Solutions Centre described above essentially involves a 'retro-fit' exercise. However, an alternative approach involving new stores is described in broad outline below:

7.3.1 Description of Model

The store modelled is a larger format store, probably similar to a modern hypermarket. Meal Solutions are fully incorporated into the layout and sit alongside conventional ingredients. There are three components – fresh food, bulk, and two 'activity zones'.

Entry is by a number of points and shopping is conducted in a similar manner to the Meal Solutions Centre.

7.3.2 Key Attributes

There are a number of features in the Deconstructed Store Model, driving Meal Solutions sales which change the conventional way that people shop:

- categories are laid out not by temperature state or stage in the perishability cycle, but by meal occasion
- a mix of service levels is envisaged; some categories are serviced, others are self-service
- common categories such as produce, wine and bakery are laid out and operated as 'best in class' departments
- bulk goods are stripped out of the main flows and arranged separately in a warehouse environment
- two activity zones provide a modular platform for introducing a range of complementary customer services such as demonstration stations, soft-play areas, entertainment, or other activities depending on local preferences.

For example, one category will further illustrate the proposition. This is the new Poultry Meals Category, and is essentially a poultry 'category killer'. Chicken, duck, goose, and turkey-based meals are available in a variety of forms.

The category also includes the natural accompaniments such as convenience sauces, quality convenience produce (salads, vegetables) as well as wines or beverages which complement poultry. These common items would also be found at each of the main meal zones – fish, meat, vegetarian, and ethnic.

7.3.3 Strengths and Opportunities

The Deconstructed Store Model is a powerful retail concept, acknowledged as such by a sceptical set of respondents throughout the focus group programme. Its chief advantages are seen as:

- the model groups meal constituents together in a logical order for shoppers
- it allows for both traditional and new generation shopping

- it separates interesting food categories from mundane ones
- it promotes a thriving food market ambience
- it gives all the benefits of the Meal Solutions Centre Model with enhancements such as in-store demonstrations and drive thru's
- the activity centres widen the appeal and can be manipulated to focus on specific target markets and specific day-parts
- incorporation of the lifestyle categories – clothes, wine, café, with the fun aspects of shopping for some respondents, this was a 'genuine alternative to eating out in restaurants'
- household bulk shopping can be transformed by allowing customers to use electronic or tick box ordering methods, or bulk shop personally if they prefer to.

7.3.4 Weakness and Limitations

The approach has several potential disadvantages:

- site availability – the Deconstructed Store model is better suited to larger sites, with space, location and therefore planning permission implications
- capital cost – potentially this type of approach could drive up the size and fit-out costs of the store
- the model is, admittedly, futuristic, and in reality might appear intimidating to more conventionally minded shoppers
- the model represents a sophisticated mix of facilities, requiring managers with a mixture of operational, marketing and organisational skills – with consequent recruitment or training implications.

Both models are provided, not as ready-made solutions, but to stimulate thinking in an area that will be important to food retailers in the near future.

8 Implementing a Meal Solutions Programme in Europe

8 Implementing a Meal Solutions Programme in Europe

8.1 Overview

Within the explicit strategy for Meal Solutions in Europe defined in section 5.3, there are a series of high level decisions to make that impact on its implementation. Of immediate importance is the question of the extent to which the model is appropriate to each European market, recognising the heterogeneity of the continent. Finally, at the micro-level, there are some key options for individual supermarket brands to assess: these include strategic badging, operating and pricing options. These issues are taken in turn below.

8.2 Direct or Indirect Operation

An initial strategic option is the operation of any non-core Meal Solutions offering. The model incorporates extensive QSR operations in the form of rotisserie chicken and pizza. There are four basic options to consider for optimum operation of these aspects:

- direct operation by core supermarket employees
- concession operation by third party foodservice operators managing the QSR activities for a percentage of sales or profits
- franchise operation by third party foodservice specialists
- franchise operation by supermarket acting as franchisee of existing recognised QSR brand.

Each option brings its own potential advantages and downsides which we analyse in Figure 15. This analysis suggests that, on balance, there is merit in supermarkets, rather than third parties, operating the QSR components within the Meal Solutions mix.

Direct	Concession	Franchise – 3rd party	Franchise – Supermarket
Advantages			
perceived as brand extension rather than diversification	concessionaire will have local resource and staff	adds proven QSR brand into mix	adds proven QSR brand into mix
provides job enlargement opportunities	introduces foodservice expertise into store	introduces foodservice expertise into store	proven foodservice system is implemented
strong linkages across the Meal Solutions mix	gives partial due diligence protection	gives partial due diligence protection	gives partial due diligence protection
quality control maintained		development assistance available from franchisor	development assistance available from franchisor
single supply chain		supermarket benefits from QSR brand marketing	supermarket benefits from QSR brand marketing
retained cash-flow and profits			
supermarket benefits from learning curve			
Disadvantages			
not supermarkets' traditional core business	threat of inter-store conflict between two teams; parallel pay and conditions?	threat of inter-store conflict between two teams; parallel pay and conditions?	not supermarkets' traditional core business
requires a new service ethic	monitoring of operator required	monitoring of operator required	requires a new service ethic
	profit-share	royalties payable	royalties payable
	potential conflict of interest if operator has other local stores	potential conflict of interest if operator has other local stores	some franchises [i.e. McDonald's] will not franchise to corporations
	introduces third party supply chain	introduces third party supply chain	
low number of good operators with expertise in QSR			complicated brand hierarchy: supermarket, Meal Solutions, QSR
		limited number of QSR brands offering rotisserie chicken	limited number of QSR brands offering rotisserie chicken
		pricing policy may be enforced by franchisor	pricing policy may be enforced by franchisor

Figure 15 Appraisal of Operating Options for QSR Component

8.3 Branding Options

Each model presents a series of branding challenges. The key options are to:

- retain existing store identity, defining an implicit, low-level identity for the Meal Solutions Centre
- explicitly brand the Meal Solutions Centre as part of either an existing store identity or a new corporate look
- rebadge the entire store to drive home the difference between Solutions stores and existing store formats.

This report does not seek to second-guess the complex branding strategies of the major supermarket multiples, but analysis of the arguments suggests the last option, to badge the Meal Solutions Centre as a separate but related identity, seems to provide a number of benefits.

The justification of the model – quality, convenience meals – is reinforced to the shopper through an appropriate new-look, attracting some market segments and channelling others to the conventional ingredients offering within the store. Should the option of opening the Meal Solutions Centre for extended periods be taken, even 24 hours, creating a separate identity – a diffusion line – greatly assists in customer communications. Lastly, the re-configured stores become differentiated from existing ones.

8.4 Pricing

The final strategic issue to debate is pricing. The familiarisation trips undertaken in the USA and Europe identified an almost universal tactical approach to pricing of Meal Solutions product lines, particularly the QSR components. As a consequence of the vulnerable market position adopted by Meal Solutions – overlapping both ingredients food shopping and foodservice – pricing is critical. Over-pricing will lead to slower market penetration of Meal Solutions and questioning of the supermarket brand's core price positioning. Under-pricing will generate poor margins and breed distrust among customers.

Prices for fresh, chilled or frozen ready-meals can be set according to conventional supermarketing cost-plus approach. QSR products within the mix should be priced to:

- be consistent with the price point of the other Meal Solutions categories
- reflect local branded QSR operations [as opposed to individual independent foodservice offerings trading without brand advantages and constraints]
- complement other store formats in the supermarket portfolio
- be attractive to the market in the context of an out-of-hours diffusion line
- deliver the optimum level of contribution set by the corporate plan.

On a practical basis, pricing of the QSR component should adhere to VAT legislation for the respective country.

Implicit in this consideration is the need to protect and reinforce the brand proposition – Everyday Low Prices, High Value or Premium Quality – with any NPD activity. Irrespective of the price level set by the supermarket, continuous monitoring of all foodservice activity in the neighbourhood to check price fluctuations and competitor reaction is recommended.

8.5 Critical Success Factors

The scope of this study has been wide – both geographically and in terms of market data analysed – but the research has been honed down to provide direction for supermarketeers to proceed with a Meal Solutions business. The findings are not intended to be prescriptive. The chief output is a strategic framework within which European operators might develop their Meal Solutions.

The *imperative for change* is clear. Failure to react to the structural changes in consumer behaviour identified in this report, may invariably have repercussions in the core supermarketing business. Inertia in the supermarket sector will accelerate the fragmentation of food shopping across Europe, increasing the loss of consumers to non-traditional meal channels such as convenience-stores. A wrongly configured and positioned Meal Solutions offering will result in low or zero profitability and wholescale customer confusion, possibly even generating scepticism about the core supermarket proposition.

Meal Solutions represents a major growth opportunity for European supermarkets. By adopting the strategy outlined in these pages, supermarkets should be able, simultaneously, to defend their share of food expenditure to and revitalise a rapidly maturing consumer sector. For those organisations persuaded of the long-term benefit from developing a Meal Solutions programme in Europe, we identify the prerequisites or the critical success factors:

- **Convenience is the Key**
  The formula 'absolute convenience: relative quality' should be adopted as a corporate mantra. Anything that inhibits customer access or needlessly drives up quality to a superlative level will threaten the vulnerable position occupied by Meal Solutions in Europe.

- **Communications**
  Ultra clear communications with staff, suppliers and customers to create awareness, ensure co-operation and direct optimum usage will greatly assist the launch of Meal Solutions in Europe. Setting measurable objectives for the programme prior to launch is one critical area to focus on. At least three participants should be included in any communications:

  - **Customers**
    Hypothesis VIII proposes a change in shopping habits. Whilst satisfying strong latent demand, initial contact by customers with any Meal Solutions proposition is likely to be met with a range of emotions – curiosity, delight, the short-lived frustration that accompanies any degree of store remodelling. These peaks and troughs can be anticipated and managed via a

robust in-store communications programme which provides information, stresses benefits and dispels fears

- **Staff**
  Effective communications of the Meal Solutions message to staff is probably the most critical aspect. Failure to describe accurately the nature of the initiative and the benefits for customers will result in staff making their own interpretations and, by accident, default or intent re-positioning the category. The casual use of 'frozen food', 'ready meals', 'convenience foods' or 'fast food' will be counter-productive as all, in isolation, have an undesirable slant. 'Quality-Convenience' or 'Convenience with Quality' may be useful terms

- **Suppliers**
  Any new initiative of this order requires the co-operation of suppliers – of equipment, promotional support and current foodstuff inventories and new lines. Co-operation will only be maximised if these supply chain partners are fully cognisant of the definitions and objectives of Meal Solutions.

- **Hyper-Active R & D**
  Any European supermarketing organisation not actively exploring the supply chain for chilled or frozen ready meals and sandwiches will be compromised.

- **100% Commitment**
  Companies such as Larry's, Wegmans and Ukrops in the USA have demonstrated that total commitment to a Meal Solutions programme – recognising that this is not yet another tactical product promotion – increases the likelihood of achieving objectives.

- **Dangerous Diversions**
  The strategy for Meal Solutions in Europe is deliberately focused and selective in its goals: the findings of this study reinforce the risks of diverting from the strategy and chasing peripheral business opportunities for short-term gain.

- **Complacency**
  The meal market in Europe is fast-moving and evolving continuously. Consumers are diverging from life-time habits and competition is emerging from unlikely sources. Supermarkets will need to remain alert and agile in order to shift direction, albeit within the strategic framework, as circumstances change.

  The challenge may seem daunting, but supermarketeers should gain comfort in knowing that they are participating in a epoch-making period in consumer history – the *Last Great Meal Battle of the Twentieth Century*.

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Supermarketing

Glossary of Terms/Abbreviations

C-store: convenience store

Casual Dining: regular dining at medium price primarily at table service restaurants

Complex preparation and production: the process of preparing meals or sandwiches from raw materials, cooking, meal assembly and display

CTN: confectionery, tobacco and newspapers

Distress Items: items that need to be replenished immediately such as milk, bread, pet food and toiletries

EPoS: Electronic point of sale

EU: European Union

Fast Food: low-priced snacks and meals typically delivered by system-driven QSR's (see below) – primarily limited range

Fine Dining: eating in higher priced gourmet restaurants, often driven by special occasions or business

Foodservice: food provided by restaurants and eaten on the premises

Full in-store Service: production kitchens within each supermarket

Grey Panthers: active, confident consumers in the over-50 age group with discretionary time and income

HMR: home meal replacement, a term used in the USA for the substitution of current meal behaviour (snacking and grazing often via QSRs) by prepared meals consumed in the home

HR: human resources

KVI: known value item

Levels of risk: unquantifiable risks to consumers' health and supermarkets' equity

Meal Solutions: the retailing of prepared meals or meal-equivalents primarily intended for consumption in the home

> **Meal Solutions Now:** impulse driven purchase of prepared food for immediate consumption in the store, on the road or at home
>
> **Meal Solutions Soon:** the planned purchase of prepared food for consumption in the home with minimal preparation
>
> **Meal Solutions Later:** purchase of prepared food for consumption in the home with some form of cooking involved

NPD: new product development

Prepared meals: a range of meal or meal equivalents using a variety of production preparation techniques involving fresh, dried, chilled and frozen foods

QSR: quick service restaurant, an American term usually describing a system-driven restaurant serving fast food

Single item staples: simple entrée items requiring minimal pre-cooking attention, e.g. rotisserie chicken and pizza

SKU: stock keeping unit

Generation X-ers: younger consumers: young people under 25 with disposable income and craving independence