

THE INFLECTION POINT

Critical Pathways in Food Retailing



Project XII 2007

THE COCA-COLA RETAILING RESEARCH COUNCIL EUROPE



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CCRRCE

THE COCA-COLA RETAILING RESEARCH COUNCIL EUROPE

The Coca-Cola Retailing Research Council Europe (CCRRCE) is dedicated to the development of a better understanding of the food retailing and allied merchandise distribution business in Europe. The focus of its energies is to identify and then to study selected critical issues and, when appropriate, to present the findings in a suitable forum, so that full advantage of the information can be taken to further develop and enhance the effectiveness of the food retailing distribution business.

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DIRECTOR :
Thomas W Vadeboncoeur
Goodheart Resource, Inc
Hilton Head Island, SC, USA

PREFACE

Project Background

There are points in time in the evolution of markets when an “inflection point” is reached that predicts or even dictates changes in retail practices. Failure to recognise or respond to changes in observed or predicted consumer behaviour, market conditions or opportunities has often spelled disaster for food retailers around the world.

Changes in market development, demographics and legislation have spelled trouble for many retail companies. Other retailers have recognised these “signals,” have formulated a response and prospered as a result.

The CCRRC Europe commissioned this study to identify and qualify these “sign posts” or predictors of impending change in the marketplace, in consumer dynamics or legislation that may produce Inflection Points for European food retailers in the future.

Methodology

The methodology used for this project consisted of conducting 27 extended interviews with past, present and future retail industry leaders.

The goal was to learn directly from those individuals who have lived through prior Inflection Points and who are actively involved in shaping the industry’s future.

Consultants

The CCRCE commissioned the following consultancies to lead the development of this project:

McMillan|Doolittle LLP-“The Retail Experts”

For over two decades, McMillan|Doolittle LLP has been working with the world’s leading retailers to convert marketplace insights into lasting, successful strategies and retail concepts. “Winning at Retail”, co-authored by Neil Stern, the lead consultant on this project, served as the inspiration for the topic of “The Inflection Point”.

WPP/ The Store

The Store brings the vast resources and thinking of WPP, one of the worlds largest integrated marketing agencies. They were co-authors of the 2000 CCRCE study on “The Store of the Future”.

MVI

For nearly twenty years, MVI has provided market research, comprehensive strategic retail insight and training focused on the top global retailers.

Henley Centre HeadlightVision

Henley Centre provides intelligence, research and consultancy solutions to blue chip clients around the globe. Its mission is to help clients create better futures.



EXECUTIVE SUMMARY and KEY FINDINGS

A STRATEGIC **INFLECTION POINT** IS A TIME IN THE LIFE OF A BUSINESS WHEN ITS FUNDAMENTALS ARE ABOUT TO CHANGE. THEY ARE THE RESULT OF AN EVENT WHICH CHANGES THE WAY WE THINK OR ACT

Andrew S. Grove
ex-Chairman, Intel

I. INTRODUCTION

We marvel at the meteoric rise and spectacular successes of a Tesco, Mercadona or Lidl. At the same time, we wonder what happened to Winn-Dixie, the giant North American retailer forced to declare bankruptcy, while its principal competitor Publix, continued to grow and thrive. Why did Safeway U.K. or Promodes reach a point where it became prudent to sell rather than to continue to compete? How did some of the seemingly invincible companies of the past decades, with massive capital and resources, begin to fall on hard times and struggle, while other new upstarts captured the imagination (and the wallets) of consumers?

The concept of an Inflection Point suggests that there are critical points in the history of an industry or an individual company that signal permanent and enduring change. When a company faces an Inflection Point, its future might literally be at stake - the proper response leads to sustained growth, while inappropriate reactions often lead to obsolescence.

Failure to recognise or respond appropriately to changes in consumer behaviour, market conditions or opportunities has often spelled disaster for food retailers in markets around the world.

Successful companies appear to consistently and accurately anticipate or create new market trends, while those less successful either fail to react to market conditions or make the wrong choices.

It is easy to point out retrospectively where these right or wrong decisions were made. It is more

difficult to be able to understand if an impending Inflection Point is at hand. And, even more critically, to have the necessary skill sets to predict those potential Inflection Points and to respond quickly and appropriately.

This study seeks to help retailers answer the critical questions that will impact their long-term success:

- **Are there ways that companies can better anticipate and react to market changes?**
- **What capabilities will a company need to succeed and to respond to future Inflection Points?**
- **What are the current sign posts that retailers should be aware of, to be properly prepared for in the future?**

II. Inflection Point - Defined

For the purposes of this study, we define an Inflection Point as follows:

AN INFLECTION POINT IS A FORMATIVE OCCURRENCE -- THE RESULT OF A CONSIDERED RETAILER RESPONSE TO CONDITIONS THAT CURRENTLY EXIST WITHIN A MARKET. AN INFLECTION POINT RESULTS IN A PERMANENT SHIFT IN THE COMPETITIVE SITUATION.

For retailers, an Inflection Point is best defined in customer terms:

Changes at a market-wide level that significantly influence the overall competitive structure.

In simple terms, retailers have two options in responding to changes in market conditions:

- **They can consciously choose to create their own futures, in effect creating their own Inflection Points. These retailers are leading change, creating an Inflection Point based on their own responses to market conditions.**
- **Or, they can choose to respond to the changes in the marketplace created by others. It is often the reaction to change (not the initial change itself) that has the greatest impact on defining the Inflection Point.**

Depending on the size, niche, resources and skills of a particular retailer, either response might be appropriate. The key is being in a position to quickly evaluate the market situation and develop the appropriate response for the organisation.

III. Major Inflection Points during the Past Decade

Inflection Points in retail markets are often the result of a confluence of factors - what we will call "disruptors" and "accelerators" - that are then acted upon by a retailer. The root causes of these Inflection Points can be grouped into four distinct areas:

- 1. Competitive** - a response to competitive developments in the marketplace. E.g. a new format from an existing retailer or a new format from a new retailer.
- 2. Consumer** - a response to accelerating changes in consumer demand or shopper expectations.

3. Internal - action taken due to a need to change direction and strategy. While these decisions may be based on market insights, the action ultimately comes as a result of changes in the internal corporate structure.

4. External - a response to issues outside the area of direct relationships with consumers and shoppers. E.g. changes in government regulation or a significant external event.

There are common capabilities that companies need to cultivate to help understand, react to and implement change in the face of significant Accelerators and Disruptors.

IV. Capabilities: Creating Evolved Skill Sets for Retailers

While all modern retailers need to master the fundamentals of running a successful business, the study indicates that there is a higher concentration of core capabilities present in exceptionally successful retailers. In the future, these capabilities will be even more important in preparing for marketplace changes.

THE KEY IS FOR COMPANIES TO BE ABLE TO FOSTER BOTH CONTINUOUS AND STEP-CHANGE INNOVATION WITHIN THEIR ORGANISATIONS. IN OTHER WORDS, COMPANIES MUST POSSESS THE ABILITY TO EFFECTIVELY RESPOND TO MARKET FORCES WHILE AT THE SAME TIME MANAGING THE SUCCESSFUL IMPLEMENTATION OF NEW INITIATIVES WHICH PROVIDE A COMPETITIVE ADVANTAGE.

The ability to develop innovation has three key components:

- **Scanner.** Retailers need to create a process to enable the identification of potential market 'Disruptors' or 'Accelerators' which could lead to an Inflection Point. This scanner enables a retailer to gain important information about market conditions, based on changes in the consumer, competitor and macro-economic forces.
- **Effective Filter.** They then need the ability to create and actively assess ideas that serve as responses to these changes. Inevitably, as potential responses are considered, this process will demand the ability to confront challenges, which may threaten the organisation's 'comfort zones'. Strong planning processes, strategic positioning and leadership are critical in helping the retailer make the proper decisions for the future.
- **Execution.** Ultimately, retailers must be able to determine the optimum responses for their business. But equally critical, is the ability to create systems that enable the speedy and successful implementation of those responses within the organisation.

The ability to make this innovation model succeed requires evolved skills sets to harness consumer insights and develop talent, combined with rapid execution capabilities and strong leadership to set and reinforce key strategies.

V. Future Sign Posts

The “sign posts” for future Inflection Points are already evident throughout Europe and North America. These sign posts will continue to be driven by consumer changes, competitive dynamics, significant macro-economic events and internal change within companies.

The speed and degree of change will be influenced by a combination of Accelerators and Disruptors that will create the conditions for upcoming Inflection Points. Some retailers will create their own futures and their own Inflection Points, while others will be forced to react. As trends evolve, the following areas appear to be ripe for driving retail change over the next decade:

1. Age of Wellness. Explosion of Health and Wellness, resulting in significant shifts in product mix and sourcing

2. Format Frenzy. Proliferation of new formats, driven by fragmenting consumers and shopping occasions

3. Greentailers. Retailers as active agents of social and environmental change, driven by a sudden rise in international awareness of the effects of global warming and increased consumer and government anxiety and response

4. Micro-tailing. Mastering true consumer insights to tailor assortments at a local level

5. Branded Retail. Retailers as true brands, driving product development, unique assortments and differentiated marketing messages

6. Techno-change. Leveraging new technologies for greater efficiencies and to provide consumers with access to products in new and different ways



SUMMARY OF FINDINGS

Successful retailers will need to become masters of managing the innovation pipeline – building capabilities and processes to identify potential Accelerators and Disruptors and to test the implications of these for their market and their own business. The following is a recap of the critical findings of the study:

- 1. Build an effective innovation model for your organisation.** This model requires a scanner to monitor trends, a filter to process ideas and strong execution capabilities, combined with the ability to foster both continuous and step change innovation.
- 2. Develop critical capabilities within your organisation.** These include strong consumer insights, people development and leadership skills to determine and reinforce critical decisions.
- 3. Effectively respond to potential Signposts.** The study identified six macro trends that threaten to become imminent Inflection Points. Assess these trends for the likelihood of their occurrence in your market and whether you want to lead, or react.
- 4. Play to your strengths.** The appropriate response to change needs to be dictated by company size, market dynamics, niche vs mass positioning and a critical assessment of your company's core competencies.
- 5. Are you prepared for the future?** Conduct a critical self-analysis to understand where and how your organisation needs to evolve in the future.

Surviving future Inflection Points demands that retailers actively develop the appropriate capabilities to succeed in a future market that promises to be even more dynamic in the next decade.



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