Meeting New Challenges in the Retail Food Business

Edward S. Dunn, Jr.

Thank you very much for the kind introduction, Dr. Adrian. It's a pleasure to be with you all this morning.

Are any of you familiar with Harris Teeter? I'm glad a few are. Let me tell you a few things about us:

1. 139 stores, standard supermarkets, serving the two Carolinas and parts of Virginia, Tennessee and Georgia. Our primary concentration is in the Piedmont area of North Carolina, along an arc from Raleigh through Greensboro to Charlotte.

2. Our stores range from 15,000 to 60,000 square feet in size and the markets we serve are as small as Taylorsville, NC (anybody know where Taylorsville is?) to greater Atlanta.

3. Store volumes can be as low as \$100,000/week or as high as \$700,000/week.

So, Harris Teeter is a typical regional chain, with plenty of variety in customer types, geography served, store size and store volume. The one common thread among our customers - we serve well over a million per week - is they like food. They enjoy learning about it, preparing it, eating it. So, our job is to make sure they enjoy buying it as well.

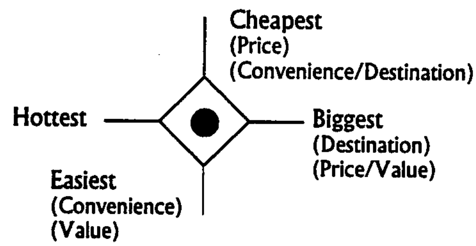
This brings us to my topic today: First, how do grocery retailers go to market? How do they position themselves to compete? Second, how are customer expectations evolving and changing? And, finally, how are grocery retailers likely to change to take advantage of what the competitive situation offers?

Competitors

I borrowed Figure 1 from a fellow named Norm McMillan, who's been working with us to develop our strategy for the next 10 years or so (based on what we've paid him, I hope that strategy lasts 10 years!).

Figure 1.

Types of Retail Grocery Competitors



The theory is there are four primary ways to differentiate yourself as a retailer:

1. Cheapest - Guarantee the lowest prices, be the low price leader. From a location standpoint, you may be convenient to where your customers live, or you might be in a location where customers make a special trip to shop. These are destination locations, where the new supercenters are appearing much as they did before they added food to their offerings.

2. Biggest - These tend to be very large stores - over 100,000 square feet in size. Invariably they are in a destination location and will tend to offer the widest variety, which is a piece of the "value" equation. However, some could offer low prices and less variety.

3. Easiest - These stores tend to be located in or near the neighborhoods they serve. In an urban setting, these stores rarely pull customers from more than two miles away, whereas stores in destination spots often pull from 20

The author is the President of Harris Teeter Super Markets, Matthews, NC.

miles or more. Part of being easiest is offering full variety, and the one stop shopping trip, both key factors in the value equation.

Value is defined as the combination of: location, facility, variety, service, and quality -- all at a fair price. So, if you're easiest, you're not likely to be cheapest, too.

4. Finally, hottest. These are trendy stores that are on the leading edge of food fashion. These tend to be small niche marketers like Fresh Market, Fresh Fields, Mrs. Gooch's, Wellspring and Harry's and the like.

In the middle of this diagram is a black hole. The theory is: as a retailer, to avoid the black hole, you must be perceived as a leader in one of the four attributes. It's OK to have attributes in another segment - for example, Harris Teeter is in the easiest category, but has a reputation for being "hottest" in certain markets. You fall in the black hole if consumers don't have a clear idea of what you stand for. Or, if you try to be too many things to too many customers. It's virtually impossible to be the cheapest and the easiest and make money - ergo, if one tries that strategy, the black hole awaits.

Now, how do the major competitors line up in our part of the world ? As you can see, competitors tend to be cheapest or easiest. (Table 1.)

Table 1. Selected Southeast Grocery Chains

Cheapest	***Easiest***
Winn Dixie	Publix
Food Lion	Bi-Lo
Albertson's	Kroger
Bruno's (Food World, Food Max)	Ukrop's
Hannaford (Shop 'n Save)	Harris Teeter
K-Mart/Wal-Mart/Target	

The "hottest" segment, as I mentioned a moment ago, is comprised of smaller players.

We just don't have big stores, nothing like Wegman's in Rochester, for example. The food stores within the supercenters tend to be in the 60,000 square foot range, which is only slightly larger than the typical supermarket being built today.

Another interesting and obvious fact is there is no lack of competition. The Carolinas are blessed with the highest square feet of grocery store space per capita in the U.S. That's not stopping the spread of the supercenters or an outfit like Hannaford coming in from northern New England to set up shop in Virginia and North Carolina.

So one thing is for sure - there are and will continue to be plenty of competitors using at least four different approaches to attracting customers.

Consumers

That's a quick look at the competitive picture. But, what are consumers looking for? It's pretty clear that consumers want to spend less time shopping for and preparing food. This is evidenced by several phenomena:

1. Over 75% of women now work full or part time outside the home. Two wage-earner families are the norm.

2. In the sixties, 45 minutes were allotted to preparing dinner; now it's 15.

3. Cooking is becoming a recreational activity for weekends.

4. Success of the home meal replacement concept -- Kenny Rogers Roasters and The Boston Market are growing rapidly.

5. The sale of take out meals is on the rise (Chinese, pizza, etc.).

6. McDonald's is reputed to do more than half of its business at the drive-thru window.

7. Supermarkets are moving into the prepared foods arena with full meals and entrees "ready to go" as standard fare.

8. Consumers continue to say they don't like the shopping process, the job of buying food.

9. Lastly, there is a general impatience - people want what they want right now.

So, clearly, the most important concern of the consumer is time, or the lack of it.

There are also other consumer trends of note:

1. The population is aging - that means smaller households with different and more demanding eating requirements.

2. The baby boomers are entering a new life stage. I don't know what that will mean except that that generation is comprised of smart, experienced and very demanding customers. They make their presence known.

3. Over the last twenty years, real income for the bottom 90% of the population has declined. So, price will continue to play a critical role in food purchasing.

4. Meanwhile, income for the top 10% of the population continues to grow, which presents an entirely different set of opportunities.

5. Finally, by 2000, 30% of the population will be minorities as compared with 15% in 1980.

Of these facts, three are critical: time poverty, the aging population, and continued need for low prices. Couple this with the increasing number of new competitors for a share of stomach - competitors such as the supercenters, the corner gas station, the Boston Markets, the small niche grocery stores, and the smaller one product operations - bagels, ice cream, bread, and so forth - and the outlook for regular grocers could be pretty bleak.

Future

But, I don't think so. Regular grocers have been in a state of constant change for 60 years. Fifteen years ago there were 30,000 or so supermarkets in the U.S. Today, there are still 30,000 - they've gotten bigger and they've adapted to consumer demands.

Some $400 billion or 55% of the money spent on food in the U.S. goes to grocery stores. That's down from a peak of 75%, but nevertheless a huge figure. Supermarket sales have kept up with inflation, but other segments have grown faster.

I believe regular grocers will still keep up with inflation because:

1. The good price operators will be hard to dislodge.

2. Those who excel at easiest target a customer who, once hooked, is very loyal.

3. It will take the supercenters some time to gain parity with regular grocers, particularly in perishable products.

To win, I believe one must know:

1. What got sold...and

2. Who, demographically, bought it...then

3. Put stores in that target customer's path.

Sure, the pie will continue to be split; and the nimble will survive. I think many grocers are pretty nimble and will still be around for a long time.

Thanks for listening to me this morning. I'll be glad to take questions.