EXPERT360

The Future Of The Grocery Industry: Big Data And Customer Centricity

Two of the biggest trends for supermarkets analysed in extended report and infographic format

By Tim Bowen

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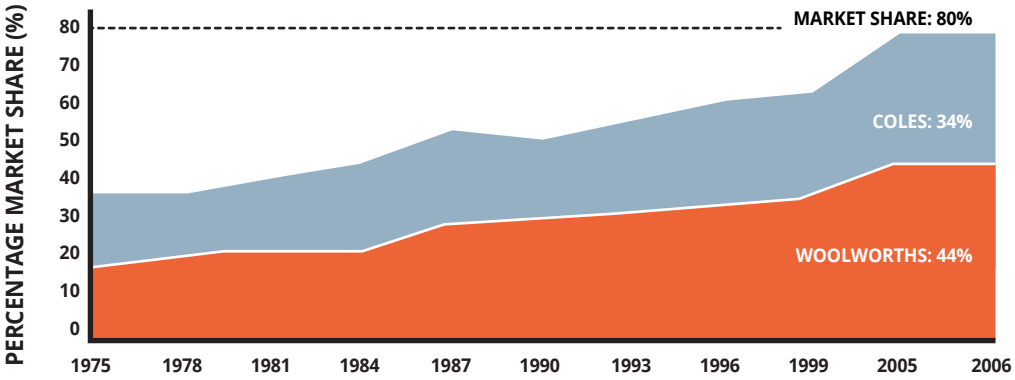
The Current State Of The Australian Supermarket Industry

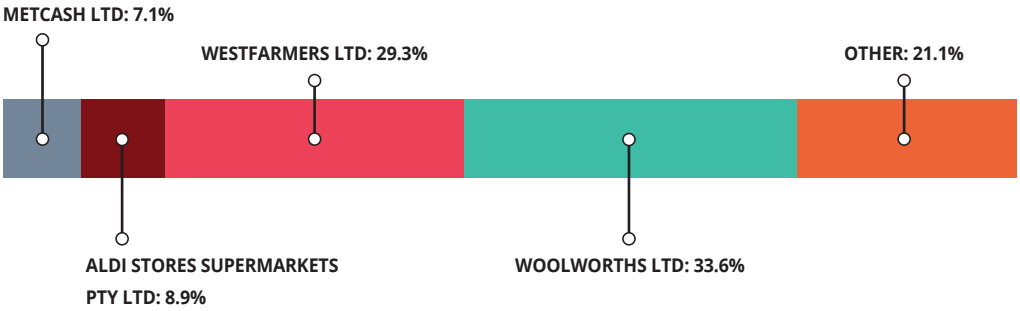
The Australian grocery industry is very concentrated. This level of concentration has occurred over many years as the 2 major supermarket chains, Coles and Woolworths, have successfully grown their sales and market share.



SOURCE: RETAIL WORLD, AC NIELSON

Recent industry figures from IBISWorld's 'Supermarket and Grocery Stores in Australia', January 2017, estimates the big 4 players have about 80% market share of the $105 billion market.

MAJOR PLAYERS (MARKET SHARE)



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New Entrants

A major change that occurred in the Australian grocery market was an international retailer, Aldi, entered the market in 2001. Since opening their first store in NSW in 2001, Aldi has opened 470 stores throughout Australia including entering the SA and WA markets in 2016. Aldi offered Australian consumers another type of supermarket, a hard discounter. Another international retailer Costco also entered the market in 2009 and now has 8 warehouses in Australia. Costco again offers Australian consumers another type of supermarket - a big box or hypermarket.

In addition to Aldi and Costco other foreign retailers are planning on entering the market. In May 2017, UBS presented a supplier survey to the Australian Food and Grocery Council that suggested 'Amazon Fresh/Grocery will enter Australia in the next three years' and 'Kaufland will have a physical presence by 2020'. Other evidence to support these foreign retailers entering the Australian grocery market shortly is that Amazon stated (April 2017) 'The next step is to bring a retail offering to Australia, and we are making those plans now'. Kaufland is advertising for retail sites on their Australian website and the website states 'Kaufland is coming to Australia'.

Amazon Fresh is a subsidiary of Amazon.com and in addition to offering a dedicated grocery delivery service also operates retail stores in some states of the USA, London, Tokyo and Berlin. Kaufland is owned by Schwarz Group and operates hypermarkets in Europe.

So today the Australian grocery industry is evolving into an international market and the major Australian supermarkets must compete with international retailers to survive. What is interesting is the 2 major supermarkets, Coles and Woolworths, with the most sales / share in the Australian market are smaller operations vs the new entrants.

Costco	**116,199**
Schwarz Unternehmenstreuhand KG	**94,448**
Aldi Einkauf GmbH & Co. oHG	**82,164**
Amazon.com. Inc	**79,268**
Wesfarmers	**44,679**
Woolworths	**41,366**

SOURCE: DELOITTE REPORT GLOBAL POWERS OF RETAILING 2017 - 2015 RETAIL REVENUE (US$M)
SCHWARZ UNTERNEHMENSTREUHAND KG OWNS KAUFLAND WESFARMERS OWNS COLES SUPERMARKETS

Due to increased competition from new entrants Coles and Woolworths have invested in aggressive price promotions to try to defend their sales / share.

Coles - The Current Landscape

Coles supermarkets was acquired by Wesfarmers in November 2007 and a new management team was brought in to revive the retailer's performance. As part of the turnaround program Coles has invested heavily in lower prices and its 'down, down' pricing initiative. In the recent 2017 Third Quarter Retail Sales Results Coles Managing Director John Durkan reported that 'The business has now recorded 24 consecutive quarters of price deflation.' Coles Managing Director John Durkan also said that "It is necessary that we continue to proactively invest in the customer offer throughout this period of lower growth and increased competition to ensure we maintain our market leading customer offer".

24 *THE NUMBER OF CONSECUTIVE QUARTERS OF PRICE DEFLATION, ACCORDING TO COLES MANAGING DIRECTOR*

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2017 THIRD QUARTER RETAIL SALES RESULTS - KEY METRICS

Key Metrics (%)	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
COLES Food & Liquor					
Comparable store sales group (food)	0.4	1.0	1.7	2.9	4.9
Comparable store sales growth (food & liquor)	0.3	0.9	1.8	2.8	4.9
Price inflation (deflation)	(0.5)	(0.8)	(1.0)	(2.4)	(2.0)

The issue for Coles is that the lower prices to try to maintain sales / share will not necessarily increase profit. In the latest Wesfarmers Half Year Report to 31 December 2016 it was noted that:

"Coles' sales performance during the half built on the strong growth achieved in the prior corresponding period. Significant investment in value, particularly in the second quarter, led to lower earnings despite a reduction in costs"

"Earnings before interest and tax (earnings or EBIT) at Coles decreased 2.6 per cent to $920 million for the half, with revenue in line with the previous corresponding period. Excluding the gains on the sale of Coles' interest in a number of joint venture properties to ISPT, earnings declined 6.8 per cent."

Woolworths - The Current Landscape

The Woolworths group, owner of Woolworths supermarkets, has also invested heavily in price promotions particularly after closing the Masters hardware chain in December 2016. In the recent Half-Year Profit and Dividend Announcement For The 27 Weeks Ended 1 January 2017 Brad Banducci, Woolworths CEO, noted:

"During the second quarter, average prices declined by 2.6% relative to the same quarter in the prior year. Customer price perception is beginning to improve but still presents a major opportunity and reflects our efforts to improve customers' trust in our prices through lowering shelf prices. All major categories other than meat and tobacco were in deflation in HY17."

"Sales momentum improved over the half for Australian Food with comparable sales in December the strongest for the year driven by strong comparable transaction growth and an improvement in items per basket. EBIT declined 13.9% on last year primarily impacted by the reinstatement of team incentive payments, team training and higher depreciation from our renewal and IT investments.'

Metcash - The Current Landscape

Metcash, wholesaler that supplies IGA branded independent stores, has also faced increased competition. An excerpt from Metcash Limited – 2017 Fully Year Results and Financial Report:

"Wholesale sales (excluding tobacco) declined 4.3% over the comparable 52 week period. Sales growth from strategic initiatives and new store openings were more than offset by the impact of store sales and closures, deflation, difficult economic conditions in Western Australia, and increased competition including the expansion of competitor footprint in South Australia and Western Australia."

IBIS World's 'Supermarket and Grocery Stores in Australia', January 2017, describe the current retail environment as "The rise of ALDI has forced the two established industry giants, Woolworths and Coles, to cut prices and expand their private-label product ranges. Smaller players, such as Foodworks, have struggled to compete in an increasingly price-intense industry. In addition, industry-wide profit margins have fallen over the past five years as players reduced prices and accepted lower margins to stay competitive."

"WHOLESALE SALES (EXCLUDING TOBACCO) DECLINED 4.3% OVER THE COMPARABLE 52 WEEK PERIOD."

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What Chance Do The Local Supermarkets Have Against International Competition?

How can Australian retailers compete with the larger international retailers that are now active and planning to enter the Australian grocery market? Consumer Loyalty.

The major issue facing Australian retailers is that their consumers are prepared to trial and switch to new entrants in the market. This highlights a lack of consumer loyalty to the brand.

To entice the switchers back retailers can lower prices in the short term but that will not necessarily grow sales and profit in the long term. Some international retailers, such as Aldi, have a lower cost of doing business so full-service supermarkets such as Coles and Woolworths will struggle to match Aldi pricing whilst maintaining acceptable margins / profit for their shareholders.

"THE MAJOR ISSUE FACING AUSTRALIAN RETAILERS IS THAT THEIR CONSUMERS ARE PREPARED TO TRIAL AND SWITCH TO NEW ENTRANTS IN THE MARKET."

An obvious example of Aldis' cheaper cost of doing business that is easily seen by consumers is the number of staff working in a store. It is usual for a full service supermarkets to have 30 plus team members working in store during peak trading hours whereas Aldi may only have 6. According to the Australian Government Productivity Commission Report (September 2014) Relative Costs of Doing Business in Australia: Retail Trade:

"Labour costs are the single largest area of expense for most retail businesses, whether based in Australia or elsewhere. In 2012-13 labour costs represented 47 per cent of the cost of doing business in the retail sector."

So how can Australian retailers improve their level of consumer loyalty?

Big Data

Big data can be defined as large or complex data sets.

In the grocery industry, there are 2 distinct types of big data that are currently widely utilised – scan data and panel data. Scan data or EPOS is the data that is collected in-store when items are sold or 'scanned' at the checkout. This data provides a great deal of numeric data such as units sold, price sold at, time of day sold etc. Panel data adds more depth to the data as consumers join the panel and normally will take their shopping home and then scan their purchases. Panel data will then include other data such as the age of the consumer, number of people in the household, income levels etc. In Australia, this data is normally provided by agencies such as IRI and Nielsen.

2 *THE DISTINCT TYPES OF BIG DATA CURRENTLY UTILISED BY SUPERMARKETS: BIG DATA AND PANEL DATA*

The third type of big data many supermarkets use is card data. This data is collected via consumers opting to use loyalty cards and/or credit cards when they purchase products. This data is not offered by all retailers but is normally offered by the larger supermarket chains that offer a full-service supermarket in a developed market. In Australia, Coles uses the Fly Buys program and Woolworths has its Woolworths rewards program.

The grocery industry is also starting to collect big data from social media platforms. For example, if Australian consumers are researching topics such as 'paleo diet' or 'fidget spinners' are trending then retailers can review their ranges to ensure they are meeting the ever-changing demands of consumers.

Big data in its different forms offer Australian retailers the opportunity to better understand their consumers and to tailor their offer to their needs / wants. The ultimate objective of analysing the different data sources is to increase consumer loyalty by personalising the offer. With improvements in IT it is now possible to start to use the different data sets (scan, panel, card, social media) in conjunction to get a greater understanding of consumers.

A simple example is why would a retailer pay to print and deliver a catalogue to a consumer that is health conscious that highlights unhealthy products such as soft drink, chocolate, chips and biscuits are on special this week? That catalogue would probably have a negative impact on the relationship with the consumer so a smarter option would be a personalised email highlighting what health products are on special this week.

How Retailers Can Use Big Data To Improve Consumer Loyalty

As noted in the Australian Food and Grocery Council Supply Chain Survey Report 2016 'Of note has been the huge focus on shopper loyalty, with consumers increasingly shopping at multiple outlets and retailers having to work hard to attract retail customers.'

Coles and Woolworths are aware Australian consumers do shop at different retailers and the opportunity big data offers them to better understand their consumers and improve consumer loyalty. Over many years both have invested in big data to ensure they are able to make fact based decisions. For example, in 2013 Woolworths invested in a data analytics company Quantium. Woolworths CEO Grant O'Brien First Half Profit Report and Dividend Announcement For The 27 Weeks Ended 5 January 2014.

“Data driven insights continue to assist with the transformation of our business. Through our investment in Quantium, we can better understand the needs of our customers and deliver a better shopping experience.”

The major change that has now occurred is retailers don’t just want lots of data but rather wish to use this data to better connect with their consumers and offer personalised experiences. Amazon is widely regarded as a leader in this field as their websites utilise recommendation engines that analyse consumers personal data such as a user’s purchase history, shopping cart items, items they have liked and what other customers have viewed and purchased. The website is then able to make a personalised recommendation of item/s they may wish to purchase.

McKinsey, in their 2013 article ‘How retailers can keep up with consumers’, suggested:

“Forward-thinking retailers are leveraging the vast amounts of data they possess and building analytical muscle to enable targeted marketing, tailored assortments, and effective pricing and promotions. Gathering and analysing data to understand the needs, preferences, and attitudes of growing consumer segments … will be especially important, as will understanding individual consumers and customizing offers on a one-on-one basis.”

With on-going IT developments in algorithms and artificial intelligence (AI) many more actionable insights will be able to be drawn from big data to improve consumer loyalty by creating a personalised offer.

In February 2017 at the Mumbrella Marketing Retail Summit, Woolworths Director Loyalty, Data and Digital Media Ingrid Maes highlighted that ‘our core objective is to generate a genuine one-to-one relationship with every single member in a program.’

This change in thinking means Australian retailers that historically focused on short term sales and share being driven by promotions are now starting to focus on building long term relationships with their consumers that is based on a greater understanding of their needs due to more big data being available and analytical tools being developed to create actionable insights from the data.

Retailers that are unable to improve their customer loyalty face the real risk of decreasing sales and profit as consumers switch to a better personalised offer from another retailer.

"DATA DRIVEN INSIGHTS CONTINUE TO ASSIST WITH THE TRANSFORMATION OF OUR BUSINESS. THROUGH OUR INVESTMENT IN QUANTIUM, WE CAN BETTER UNDERSTAND THE NEEDS OF OUR CUSTOMERS AND DELIVER A BETTER SHOPPING EXPERIENCE."

GRANT O'BRIEN
WOOLWORTHS CEO

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How Suppliers Can Use Big Data To Improve Trade Relationships and Consumer Loyalty

Traditionally the larger blue chip, tier 1, suppliers have invested in big data. Scan data, panel data and card data has been purchased and this data for internal business reviews and for category reviews with the retailers to support their business case.

Due to the current trading environment, especially retail price deflation, suppliers are going to have to use this data more to justify cost and retail pricing. For example, in June 2017 Coles managing director John Durkan argued 'Australian consumers are getting ripped off' due to high cost prices from branded suppliers. Suppliers are going to need to continue to use this data to present fact based arguments to justify their cost price increases to retailers.

Over many years major supermarkets have been sharing more data with suppliers to try to increase collaboration between suppliers and retailers to better meet or exceed consumer needs. Coles and Woolworths both have supplier portals to share information and in 2017 Woolworths launched their new Supplier Connect portal that allows suppliers to access more data.

The objective of sharing this information is for the supplier and retailer to work together towards common goals, normally outlined in a scorecard.

For suppliers to meet the demands of their retail clients it is expected that they also invest in data and support the retailers' objectives in a collaborative partnership. The Australian Food and Grocery Council Supply Chain Survey Report 2016 noted "some suppliers are already responding to the trading environment by striking a balance between price and promotional activity, developing shopper insights and driving supply chain efficiencies. Others have yet to make this shift and there is a clear mismatch between their trading priorities and those of their retail customers".

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The risk for the suppliers that do not adopt this collaborative approach is that the retailer may range less of their products and in some cases, may cease doing business with that supplier.

Suppliers may feel they are being 'forced' to invest in big data to maintain or grow their business with their retail clients however the current trading environment with new market entrants and price deflation is challenging and without investing in big data the relationship between the supplier and retailer could suffer. This data can also be used to change the relationship between the supplier and retailer so that the retailer trusts the supplier to the point where the suppliers' recommendations are actioned by the retailer with a minimum of fuss.

On a positive note suppliers that do invest in big data can learn more about consumers in the category in which they operate. These suppliers can have a greater understanding of their current and the competitors' consumers in both branded and private label ranges. This information can then be used to develop new products or ranges to increase sales.

Breakthrough innovation is still limited in the grocery industry vs other industries such as telecommunications and IT hardware. For example the Nielsen Australia Breakthrough Innovation Report 2016 highlighted only 48 (0.4%) items were qualified as breakthrough innovation out of the 10,770 items launched in 2014.

The report also noted:

"Successful innovation can often be the key to delivering real incremental dollar growth to a mature category or manufacturer who is trying to compete in a low growth environment – it's critical to get right and, it's astounding how many get it wrong."

So for suppliers to be successful in the current trading environment they should invest in big data to develop mutually beneficial trading relationships with the major supermarkets and to drive their range / NPD / sales by a greater understanding of the consumer.

0.4% *THE NUMBER OF PRODUCTS CLASSIFIED AS 'BREAKTHROUGH INNOVATION' RELEASED IN THE GROCERY INDUSTRY IN 2014.*

How Big Data Benefits Consumers

The increased level of competition in the Australian grocery industry has many benefits for Australian consumers.

Firstly, retail prices have already decreased as the 2 major supermarkets, Coles and Woolworths, fight to maintain their current sales and share. Aldi has forced Australian retailers to adjust their retail pricing to remain competitive in the market.

The new entrants are offering Australian consumers different shopping formats. Aldi as a hard discounter has a limited range with low prices and Costco with its big box concept offering a buy in bulk and save shopping to Australian consumers. With Amazon planning to enter the Australian market other shopping formats, including an improved online experience, could be available in Australia in the next few years. For example, Amazon opened a trial store in December 2016 in the USA, Amazon Go, which is automated so there are no checkouts.

The next benefit for consumers shall be a more personalised offer. By analysing big data retailers and suppliers will better understand what you want, when and how and they will develop their range, pricing and distribution models to meet those needs. The personalised offer will make your shopping experience more enjoyable by making the whole process faster, easier and simpler.

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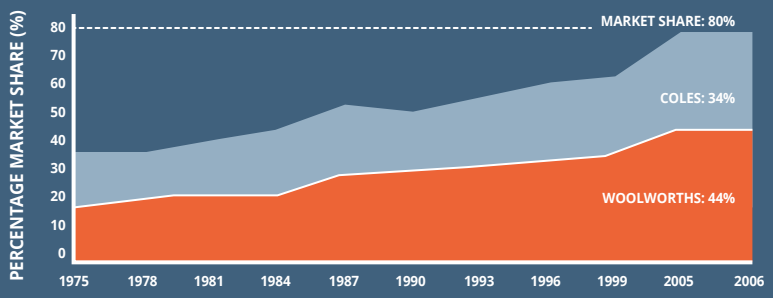
HOW ARE AUSTRALIA N GROCERY RETAILERS DRIVING GROWTH WITH BIG DATA?

1

CURRENT STATE OF THE AUSTRALIAN SUPERMARKET INDUSTRY



Australian landscape is dominated by 2 major players.
SOURCE: retail world, AC Nielson

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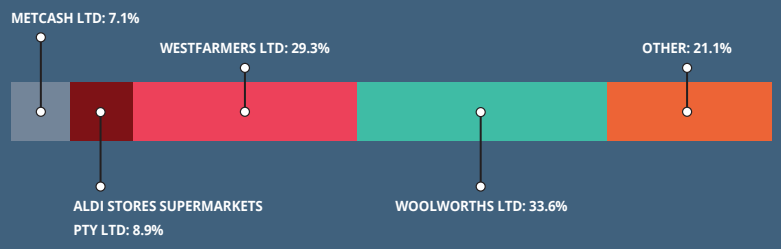
MAJOR PLAYERS (MARKET SHARE)



Overseas incumbents are gaining more of the market share.

2

LOCAL SUPERMARKETS STRUGGLING WITH NEW COMPETITION

LOCAL PLAYER: COLES

24 *THE NUMBER OF CONSECUTIVE QUARTERS OF PRICE DEFLATION, ACCORDING TO COLES MANAGING DIRECTOR*

2017 THIRD QUARTER RETAIL SALES RESULTS - KEY METRICS

Key Metrics (%)	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
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Comparable store sales growth (food & liquor)	0.3	0.9	1.8	2.8	4.9
Price inflation (deflation)	(0.5)	(0.8)	(1.0)	(2.4)	(2.0)

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LOCAL PLAYER: WOOLWORTHS

2.6% *THE AVERAGE PRICE DECLINE IN Q2 FOR WOOLWORTHS, RELATIVE TO THE SAME QUARTER THE PREVIOUS YEAR.*

LOCAL PLAYER: METCASH

4.3% *WHOLESALE SALES DECLINE OVER THE COMPARABLE 52 WEEK PERIOD.*

> *"THE MAJOR ISSUE FACING AUSTRALIAN RETAILERS IS THAT THEIR CONSUMERS ARE PREPARED TO TRIAL AND SWITCH TO NEW ENTRANTS IN THE MARKET."*

3

USING CUSTOMER DATA AS A LOCAL COMPETITIVE ADVANTAGE

2 *THE DISTINCT TYPES OF BIG DATA CURRENTLY UTILISED BY SUPERMARKETS: BIG DATA AND PANEL DATA*

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"THERE HAS BEEN THE HUGE FOCUS ON SHOPPER LOYALTY, WITH CONSUMERS INCREASINGLY SHOPPING AT MULTIPLE OUTLETS AND RETAILERS HAVING TO WORK HARD TO ATTRACT RETAIL CUSTOMERS."

AUSTRALIAN FOOD AND GROCERY COUNCIL SUPPLY CHAIN SURVEY REPORT 2016

2013 *WOOLWORTHS INVESTED IN DATA ANALYTICS COMPANY QUANTIUM*

"OUR CORE OBJECTIVE IS TO GENERATE A GENUINE 1-TO-1 RELATIONSHIP WITH EVERY SINGLE MEMBER IN A PROGRAM."

INGRID MAES
WOOLWORTHS DIRECTOR OF LOYALTY, DATA AND DIGITAL MEDIA

"DATA DRIVEN INSIGHTS CONTINUE TO ASSIST WITH THE TRANSFORMATION OF OUR BUSINESS. THROUGH OUR INVESTMENT IN QUANTIUM, WE CAN BETTER UNDERSTAND THE NEEDS OF OUR CUSTOMERS AND DELIVER A BETTER SHOPPING EXPERIENCE."

GRANT O'BRIEN
WOOLWORTHS CEO

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4

DIFFICULTY TO BREAK THROUGH

Despite placing a strong emphasis on data collection, supermarkets have struggled to use the information for breakthrough innovation

0.4% *THE NUMBER OF PRODUCTS CLASSIFIED AS 'BREAKTHROUGH INNOVATION' RELEASED IN THE GROCERY INDUSTRY IN 2014.*

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How Australian supermarkets are using customer centric strategies to win

Introduction

Customer centricity is one of the hottest business buzz-phrases of this decade with good reason. Increasing access to user journeys from the moment that they engage with your product - whether physical or online - and heightened expectations from customers have required large companies to obsess over how to best serve their customer.

In an sector like the Australian supermarket industry, the abundance of user data has provided the big players with an unprecedented opportunity to access their customers. In the grocery sector in Australia, customer centricity is a core growth strategy for both local companies trying to retain their stronghold on the market, as well as large international incumbents aiming to cut a slice of the pie for themselves. This article will dive deeply into this concept: why Australian retailers and suppliers are focusing on the customer in their business decisions i.e. a customer centric business model.

Secondly the article shall explain how Australian retailers and suppliers are trying to become customer centric by leveraging data to better handle category management as well as through social media and customer support.

The key message of the article is that the Australian grocery industry has become more competitive for retailers and manufacturers (brands) and the only way to be competitive in this market is to adopt a consumer centric business model.

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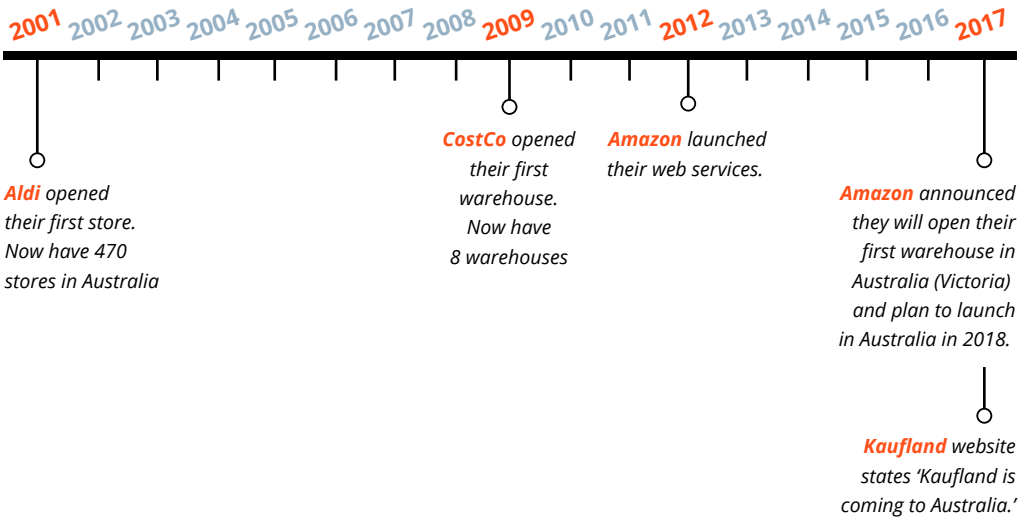
Retailers and supermarkets - Why be customer centric?

Large International New Entrants

While traditionally dominated by three main players (Wesfarmers, Woolworths Group and Metcash), Australian grocery (supermarket) retailers are facing increased competition. Firstly, new international retailers have entered or plan to enter the market, as shown in the table below:



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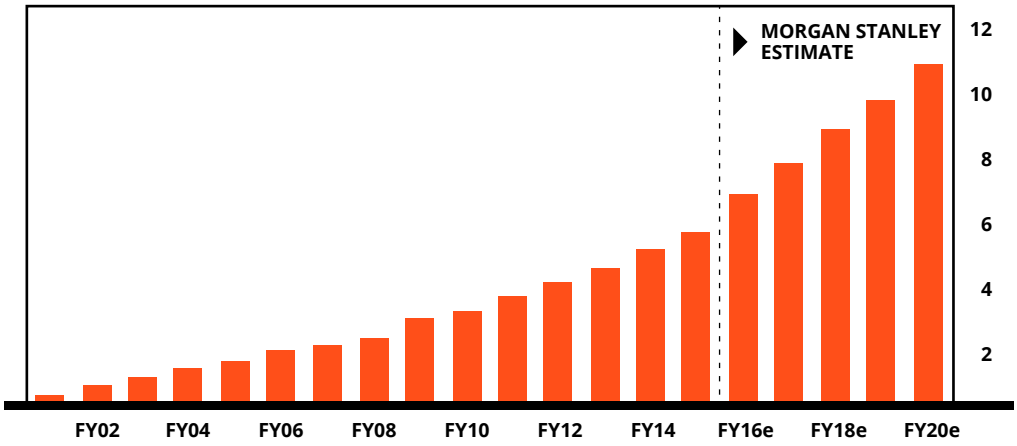
Aldi in particular have successfully adopted a customer centric business model in Australia and this approach has supported Aldi been named Supermarket of the Year in 2016 by Roy Morgan Research, and 4 times since the awards were established in 2011. This approach has also driven Aldis' market share as highlighted in the chart below:

ALDI MARKET SHARE, FY01 - FY20E (%) - SOURCE: MORGAN STANLEY



E-Commerce

The other major change affecting the Australian grocery retailers is e-commerce. Australian consumers can now order many goods direct from overseas through sites like eBay and Amazon. Australian consumers can also order grocery items and fresh food from local e-commerce operations such as Aussie Farmers Direct, Groceryshop, Groceryrun and Kogan. In addition to these online stores some manufacturers are also dealing direct with consumers via e-commerce.

An example of a manufacturer dealing direct with consumers is Nestle selling their Nespresso range of coffee machines and coffee capsules direct to consumers.

This increase in competition is one of the main reasons large Australian retailers are putting customer centricity at the top of the agenda. Brittain Ladd, former global logistics senior manager at Amazon, explained the situation as;

> *'If Australian's are unhappy with Amazon and they prefer to shop at other retailers, Amazon will fail. Based on my experience, I believe consumers will be very happy with the service provided by Amazon.'*

Fortunately, for Australian grocery giants, their enormous stores of user data stand them in good stead to go head to head with overseas players. The question remains, can they harness and handle that data effectively?

Manufacturers - Why be customer centric?

The larger, blue chip, tier 1 grocery manufacturers e.g. Nestle, Procter & Gamble and Unilever, focus on branded products. The sales and share of private label (store brands) have grown in the Australian market consistently for many years now, due in part to Aldi entering the market. The growth of private label sales in Australia is forcing many branded manufacturers to be customer centric to maintain sales and share in the current environment i.e. if their brands do not give customers what they want they will buy private label brands instead.

Nielsens' The State of Private Label around the world in November 2014 estimated private label value share in Australia had grown from 14.0% in 2010 to 21.3% in 2013/14.

7.3% The growth of private label in Australia from 2010-2014

Brooke Tonkin from IBISWorld noted in January 2016 that around 30% of all food and grocery sales in Australia are private label and:

'This compares with over 53% in Europe and 35% in the United States, indicating that there is room for expansion in Australia'.

Canstar Blue research released in January 2016 also noted that 65% of shoppers now prefer private label. Canstar Blue's Megan Doyle explained the situation as:

> *'You need to be convinced that a big name brand is superior in quality to spend the extra money. With private label products improving, the difference in quality seems to be narrowing and consumers are simply following the cheaper prices.'*
>
> *'The supermarket focus on private labels means cheaper groceries for consumers, but it could also mean that only the most popular brand names will survive on supermarket shelves in the long-run. Some brand names are facing a fight to survive.'*

Private label ranges that are sourced/manufactured in Australia are normally managed by the retailer. After the retailer decides the range, specification and so forth the suppliers are selected either by a tender process. In this situation, it is normally the responsibility of the retailer to understand the customer and to successfully manage the brand. In some instances the retailer may partner with a third party buyer e.g. in 2017 Woolworths announced a partnership with European Marketing Distribution (EMD) to source some private label products from European suppliers via EMD.

So the main driving force for retailers and manufacturers to adopt a customer centric business model is increased competition from other retailers and brands (including private label).

How are retailers and manufacturers customer centric?

Category Management

Category management is a term the grocery industry started to use in the early 1990s. Still today there is much debate about what category management is, the best process to use, the benefits etc. This article will discuss in general how category management is done in Australia to give a greater understanding of how the grocery industry is putting customer centricity at the top of the agenda.

Brian Harris suggests a 3 step definition of category management as:

Philosophy *with aim to manage categories as Strategic Business Units*

Process *for retailers and suppliers to jointly develop strategic category plans*

Organisational concept *to integrate buying and merchandising decisions*

The process that Australian retailers use for category management does vary by retailer and category. For example Aldi uses a tender process for each product, including internal product testing, before awarding a supplier the supply contract for a period, normally 2 years. Coles, Metcash (supply IGA stores) and Woolworths normally have category reviews for each category every 6 months. The dates and steps for the category reviews are normally documented in CDS – category development schedule.

For some categories, such as fresh produce, formal category reviews and category plans are not necessarily agreed upon by the retailer and supplier as supply volume and prices can change weekly with variations in weather / supply. These categories normally have an 'understanding' of what is planned rather than a formal category plan with clearly defined KPIs and dates.

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Seasonal ranges, such as Christmas, are normally 1 review a year with only a single order (job lot) placed. Irrespective of what process retailers and suppliers use for creating and implementing their category plans the plan is consumer centric. The objective of maximising sales for both the retailer and supplier is achieved via consumer insights and these insights drive category decisions such as what to range, what price points (standard and promotional), planogram (POG) etc.

Consumer Insights

As outlined above the exact process of how retailers and suppliers create and implement category plans does vary but the key to a successful category plan is consumer insights i.e. a consumer centric plan. There are a number of different data sources for consumer insights but the widely used sources are:

Scan data and panel data. Scan data or EPOS is the data that is collected in-store when items are sold or 'scanned' at the checkout. This data provides a great deal of numeric data such as units sold, price sold at, time of day sold etc. Panel data adds more depth to the data as consumers join the panel and normally will take their shopping home and then scan their purchases. Panel data will then include other data such as the age of the consumer, number of people in the household, income levels etc. In Australia, this data is normally provided by agencies such as IRI and Nielsen.

Due to the increasing sales and importance of private label Australian retailers are putting more emphasis on private label product creation and testing now with panel data:

- October 2015 Aldi launched its 'Testers Club'
- 2016 Woolworths started developing 'The Bunch' and in 2017 it went live

2 The distinct types of big data currently utilised by supermarkets: Big data and panel data

These examples of product testing/panel data are an example of how retailers are gathering the data to become customer centric with their private label ranges. Rather than just copying a top selling branded product they are now developing specific ranges based around customer feedback.

“We want them to cook, experiment and test them with their family and friends, then decide what they think of them and share their honest rating and reviews on The Bunch,” said Gemma Howells, Senior Own Brand Portfolio Manager at Woolworths.

Coles has internal testings called WUBIT (Would You Buy It).

Loyalty card data. This data is collected via consumers opting to use loyalty cards and/or credit cards when they purchase products. This data is not collected by all retailers but is normally available from major supermarket chains that offer a full-service supermarket in a developed market. In Australia, Coles uses the Fly Buys program and Woolworths has its Woolworths rewards program.

Social media. The grocery industry is starting to collect data from social media platforms. For example, if Australian consumers are researching topics such as ‘ketogenic diet’ then retailers can review their ranges to ensure they are meeting the ever-changing demands of consumers.

Ad hoc research. Ad hoc research covers a wide variety of qualitative and quantitative research options and is normally completed by branded manufacturers for their brands / categories and retailers for their private label ranges. This research typically ‘answers questions’ that the other data sources do not and is widely used in NPD (new product development) to test new concepts and products.

So Australian retailers and manufacturers are customer centric by utilising various data sources to better understand their consumers and then using these consumer insights to create a category plan that meets or hopefully exceeds consumer demands/expectations. Due to the increasing level of competition in the marketplace if a retailer or manufacturer does not deliver what the customer demands, then the customer can shop at another retailer or buy another brand/ private label product.

International recruits

Until the early 2000s it was normal for Australian retailers (Coles, Woolworths) to promote people from within the business to key senior management positions. Woolworths in particular was proud of how they developed their talent internally and the career opportunities available. During the 2000s, partly due to Aldi entering the market, Australian retailers realised they needed to recruit key senior management staff with experience at international retailers to ensure their businesses would remain competitive and customer centric.

Coles and Woolworths have recruited a large number of key senior management staff with international experience. Some examples are:

- 2008 Ian McLeod joined Coles as Managing Director. Ian had 20+ years experience with Asda in the UK (which was bought by Walmart)
- 2008 John Durkan joined Coles as Merchandise Director and is now Managing Director. John had 17 years experience with Safeway in the UK
- 2011 Tjeerd Jegen joined Woolworths supermarkets as Managing Director. Tjeerd had worked with international supermarkets including Ahold, Makro and Tesco in Europe and Asia.
- 2017 Claire Peters joined Woolworths supermarkets as Managing Director. Claire had 20+ years experience working with Tesco in Europe and Asia

So Australian retailers have transitioned to a customer centric business model by recruiting key senior management staff that have worked in international retailers that already have experience with this business model/culture. These people have been able to transform how staff think (decision making process) and how businesses act (put customer first) and and implement a customer centric approach throughout the organisation.

Corporate KPIs

A more recent development highlighting how retailers are customer centric is including corporate consumer satisfaction KPIs in their financial reports/results. Previously basic internal indicators such as sales and market share were used to review performance but not formally reported to shareholders. The fact that Australian consumers switched to new entrants (Aldi, Costco) has highlighted that customers were not happy/satisfied with the retailers and were prepared to trial and now spend the majority of their grocery spend at other retailers.

An example of customer centric corporate KPIs is Woolworths VOC (Voice of Customer). The objective of collating this data is to ensure customer satisfaction so that customers do not switch to another retailer. Included in Woolworths Third Quarter Sales Results 13 Weeks to 2 April 2017 overall customer satisfaction was 77%. “All states now live on our new Customer-Led Rostering tool to better match team hours to customer shopping times,” was a key point of the report.

This initiative is one of many that Woolworths are implementing after receiving negative feedback from customers about their shopping experience and is another example of how retailers are being customer centric. Coles had a similar initiative with the I’m Free campaign for Easter 2017 when they had an additional 23,570 checkouts open in the lead up to Easter Sunday.

As outlined in Wesfarmers 2017 Strategy Briefing Day, June 2017, the first point made by John Durkan, Coles Managing Director, was Coles' aim is "delivering a better customer offer remains the focus". To review actual performance against this goal, Coles has a survey where customers can provide feedback. For the 12 weeks ending May 2017 the number of customers dissatisfied were:

Areas of customer dissatisfaction at Coles.

Summary

For Australian retailers, it is a huge priority to transition to a business model that puts customers at the top of the agenda.

Australian retailers are aiming to become customer centric by actively researching their customers opinions/suggestions about the overall shopping experience and then responding to this feedback with the goal of creating long term brand loyalty. This is particularly prevalent now, when the traditional Australian duopoly is facing significant competition from new competitors. Considering the fact that Aldi has won the Roy Morgan Research Supermarket of the Year 4 times since the award was created in 2011 and the impending arrival of US-behemoth Amazon, local supermarkets in this country are facing a huge challenge.

The way retailers and manufacturers adopt a customer centric business model is by utilising numerous data sources to research and understand their customers opinions. In the case of negative feedback, they will be able to change the way they do business by minimising the negatives and maximising the positives in an effort to create customer satisfaction and brand loyalty.

While summarised here in two sentences, the challenges of becoming truly customer centric are enormous and require some of the brightest minds in the country to successfully overcome.

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Tim Bowen

Pursuing enhancement, change and transformation

Tim is a sales and marketing specialist with over 20 years experience dealing with major supermarkets in Australia and Europe.

Tim has 'walked the walk' and have completed over 100 face to face meetings with supermarkets including Aldi, Coles, Costco and Woolworths in Australia and Marks & Spencer, Sainsbury's and TESCO in the UK.

He has completed numerous category reviews from fresh produce to grocery utilising the latest consumer insights and scan / panel data (Aztec, Nielsen, TNS) to deliver win / win scenarios that grow both the supplier and retailers' sales.

He has completed this work whilst working for businesses ranging from small family owned operations with less than $10M AUD turnover a year to large international operations with turnover of more than $1B AUD a year.

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