Growth STRATEGIES

Trend Analysis That Builds Business Decisions

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IN THIS ISSUE: A GLIMPSE INTO THE FUTURE

SYNOPSIS OF PRESENTATION BY DR. ROGER SELBERT TO THE ASSOCIATED WHOLESALE GROCERS 2011 MANAGEMENT CONFERENCE

INTRODUCTION

One of the most popular shows currently on television is *Glee*. The show's many plot lines and characters center around the activities and adventures of a fictional glee club in a fictional high school in a real mid-western state, Ohio. Members of the glee club include an ex-cheerleader, a young gay man, the football team quarterback, a student in a wheelchair, a young Asian boy and girl duo, a preppy would-be star, a heavy-set black girl and a bad-boy type, among others. Several times during each show the cast breaks into spontaneous yet somehow perfectly coordinated production numbers.

Why is the show so popular? Well, it has a lot to do with rooting for the outcasts and underdogs, I guess. And it does plug into the "American Idol" fantasy of discovering talent in unknowns. Then of course there is also the factor that life is just an endless repetition of patterns and personalities established in high school.

But what I want to draw your attention to is the show's theme of diversity – and not just demographic diversity – but diversity of values, attitudes, appearances, lifestyles, incomes, backgrounds, habits, customs, beliefs, practices and well, just about everything. And it's not just the students that are diverse but the teachers, administrators, parents (which come in all varieties), local officials and other adults. They too are diverse in the ways they live, work, educate, and recreate.

This type of across-the-board diversity is also one of my main themes here today: the future is diverse in every sense. It may even be said that the major trend of the future is that there is no one single major trend. There are instead dozens, or hundreds, or thousands, of diverse trends developing simultaneously. And yes, some are mutually reinforcing but others are inconsistent, even seemingly incompatible.

THE ALL-OF-THE-ABOVE, JUST-IN-TIME SOCIETY

For example, as grocers I know you are interested in trends concerning household size, the share of family income spent on food, shopping trips, attitudes on health, consumption behaviors and the like. But I have to tell you: the trends are all over the map! We now live in an "all-of-the-above" society. We are older AND younger; richer AND poorer; concerned about health (and not so much); urban, suburban, exurban, rural. We live as nuclear families, single households, married couples, unmarried couples (what the Census Bureau calls "persons of opposite sex sharing living quarters"), created families (what the Census Bureau calls "unrelated households" – who says you can't pick your relatives?), one-, two- and multi-generational households.

Another of my main themes today is technology: technology that is so ubiquitous, so pervasive, as to be natural and integrated into every aspect of life and commerce. Indeed, in many cases it will be invisible. But in all cases, whether utilized by businesses or consumers, whether for consumer interface or back office applications, technology must meet the tests of viability: utility, affordability, and simplicity. Increasingly, technology will mean connectedness, transparency and mobile like all get-out.

Technology has transformed our economy into a just-in-time economy: only what's needed, only where it's needed, only when it's needed. Well, technology is also transforming us into a just-in-time society. And that includes shopping: from anywhere, at anytime, for everything.

So what will life in the future look like? Let me give you a glimpse, in four chapters: People, Lifestyle, Shopping, and Grocery Stores.

1 – PEOPLE (WHO WE WILL BE, WHAT WE WILL LOOK LIKE)

The American demographic future is:

- Larger (adding about 2 million a year)
- Older (Americans 50 and over are already one third of the consumer market, and own or control 70% of US net worth)
- Age-diverse (more seniors, but also more youth, than ever)
- More ethnic (20% of US residents foreign-born and/or speak a language other than English at home); non-Hispanic whites a plurality, not majority
- More Hispanic (nation's largest minority group and accounting for most of the nation's population growth)
- More female (half the workforce, 30% of professionals, 10 million+ women-owned businesses, and making the majority of purchasing decisions)
- More suburban (where most population, business and employment growth will occur)
- More dispersed, diffused and decentralized (resurgence of the American heartland)

Confirming our theme of diversity, the American population is moving in many directions at once. For example, we will see rising numbers of those with more education, skills and income, and at the same time also see rising numbers of those with less education, skills and income.

2 – LIFESTYLE (HOW AND WHERE WE WILL LIVE, WORK, EDUCATE AND RECREATE)

We have all heard a lot about work/life balance. I believe it would be more accurate to talk about work/life integration, because that's what we're doing. We are all combining work and non-work activities, and doing so from anywhere, at anytime. We work at the office, at home, on the road. We fulfill family responsibilities remotely (have you seen those airline commercials where parents do bedtime reading through their mobile devices?). We are connected and networked to work, family and friends 24/7.

One of my first futurist scenarios (and I have been in this profession 30 years) was that everyone everywhere – from kids to seniors – would be looking at screens at all times and places. What would they be doing? Everything: education, employment, training, entertainment, information, communication, shopping, buying. That future has come to pass (the secret to making accurate predictions: make a lot of them!). And the distinctions between all these activities have blurred forever.

Most of us still have a place we call "the office," but I would venture to estimate that at least a third of "work" occurs away from the office. I base that on the fact that a full third of the workforce (and a share that will grow) may be considered "contingent," everything from temps to the self-employed to independent contractors; and that a full third of the workforce does at least some work at home (the rise in telecommuting is dramatic and will continue).

This has changed the "workplace" into a fluid, malleable concept. And work is now often a collaborative, task force-type effort, where teams of associates form and disband as needed, and do so constantly and continuously.

The key to understanding and leveraging this trend of work/life integration is individualization, which means treating people as individuals, and keeping policies and processes flexible enough to provide customized arrangements. Individualization is being driven by a convergence of trends, all of which enhance personal autonomy:

Social trends toward self-determination
Economic trends toward self-reliance
Cultural trends toward self-definition
Demographic trends toward diversity

Technological trends toward ubiquitous, cheap computing power and bandwidth

Individualization is manifesting itself in every facet of life and business. For example:

Education (tailored learning)
Healthcare (targeted drugs, therapies, treatments)
Employment (self-management)
Manufacturing (mass customization of products)
Retailing/Selling (personalization of services)
Marketing/Advertising (reaching markets of one)

Individualization is both a challenge and an opportunity for producers of goods, providers of services and of course, employers. People want to be regarded and treated as individuals, and respond favorably to individualized treatment whether as consumers, employees, clients, colleagues, or associates. Are there potential conflicts between individualization and equal treatment of all? Yes, but the solution is flexibility and choice for consumers and clients, and an ethic of teamwork for associates.

3 – SHOPPING (HOW AND WHERE WE WILL SHOP, BUY AND CONSUME)

Building on the themes of diversity, all-of-the-above and just-in-time, we have an emerging shopping diversity. Shopping diversity means the entire spectrum of consumers, with their entire spectrum of needs, wants and desires, displaying the entire spectrum of shopping behaviors. It's a mix-and-match world, and consumers like shifting between and among products, where they shop (online and in-store), the times they shop, payment mechanisms, and everything else. The biggest factor in this shift is information: consumers now have more and better information, and can adjust their shopping and buying behaviors accordingly.

How well do you really know your customers? Maybe not as well as you think, and maybe not as well as you need to know them. According to recent surveys, there are gaps between the way consumers say they behave and the way retailers and suppliers believe they do.

For example, quality is ranked as a main reason for buying a brand by about 80% of consumers. But about two-thirds of retailers think price is more important to consumers than quality. On the other hand, more than half of retailers say loyalty is a main reason consumers select a brand, while only about 20% of consumers themselves say it is!

We see the same disconnect in other areas. Are "green" (ecological) qualities an important factor in a brand's selection? A third of retailers think so; only 20% of consumers agree. Packaging is cited by 17% of retailers as a main influence; only 8% of consumers agree. Advertising is cited by 28% of retailers as a main factor in brand-purchasing decisions; only about 10% of consumers agree.

It continues: more than three-fourths of shoppers say they always bring a list when they shop for groceries, but only 50% of retailers believe they do. Similarly, about 60% of consumers say they always bring coupons to the store, while only a third of retailers say consumers do so. While only about 28% of consumers say a convenient product location – at the end of an aisle or next to a related item, for example – is important, 68% of retailers think it is.

Retailers estimate that 24% of consumers use a mobile phone or PDA to assist in their shopping; actual share: around 6%. But consumers are twice as likely to say they visit brand web sites as retailers think (66% to 34%).

Other discrepancies between what consumers say they do and what retailers think they do include several health-related concerns. For example, retailers significantly overestimate how many consumers are counting calories, joining weight-loss programs, buying organic foods, or switching to vegetarian/vegan diets. On the other hand, retailers are correct in their perception that consumers value health and nutritional value quite highly when making food buying decisions.

How about shopping frequency? About 53% of consumers buy groceries for the week and plan their meals ahead of time; about 21% buy groceries as needed; and 24% buy groceries in bulk for the month and shop weekly for fresh ingredients. Retailers still seem to be more focused on the weekly stock-up. But both consumers and retailers say the most frequently visited departments are, in descending order, produce, dairy, meat, canned/packaged goods, frozen, and deli/bakery.

What is the point of all this? That knowing your customer is your number 1 goal, strategy and tactic. Building customer knowledge will enable you to segment your consumers into salient clusters. Your challenge: communicate, ask questions, build relationships, and generate more frequent and larger shopping trips.

4 – GROCERY STORES (WHAT STORES WILL DO AND LOOK LIKE)

THE CONSTANTS

Price, Quality, Freshness, Health, Safety, Convenience, Value, Taste, Nutrition

THE VARIABLES

Everything else!

THE TRENDS

The grocery and supermarket industry continues to be highly competitive, even though margins are constantly being squeezed. New competitors appear everywhere, and food is being sold in every store format imaginable. Rising prices are here to stay (commodity prices are up 20% over 2009 levels), but retail pricing power is not robust.

Adding to competitive pressures, private label brands continue to heighten their profile by improving quality and packaging. Due to these pressures and others, I expect that consolidation, mergers and acquisitions will continue and even increase in the grocery and supermarket segment.

As for stores themselves, I expect to see large infusions of technology. This will include automation, robotics, virtual assistants, vending machines, touch-screen kiosks, self-service checkouts, and digital signs. At the same time, retailers must provide outstanding personal service. I would equip associates with hand-held devices with which they can offer consumers information, services, instant coupons, and rewards.

Online shopping? You bet. All retailers must integrate their in-store and online spheres – the more extensive the integration, the greater the benefits that will accrue to retailers, suppliers, and consumers. And don't forget to enhance your mobile and social media profile: while a larger percentage of younger people use social media, its use is growing most rapidly among older age groups. This presents the opportunity for every retailer to directly engage with its customers and leverage its marketplace presence.

HOW TO SUCCEED

The future will be characterized by diversity in all things, an all-of-the-above society, a just-in-time economy, mix-and-match consumers, work/life integration, individualization, and ubiquitous technology. How to succeed in this highly demanding, competitive environment? I recommend:

- Local, targeted solutions
- Identify and engage your own consumers, communicate, establish relationships
- Differentiate your offering – become your own brand

What else will it take to succeed? Well, let's come full circle and take our lessons from *Glee*: Success hinges on teamwork, trust, ethics, and the ability to break into song at all times. You see, business is performance. So get out there and break a leg!