

Organize to LOC

Some look at the market and conclude that the grocery sector is still relatively fragmented. According to MVI, the top-10 operators control 68.4 percent of the market—far lower than other major trade channels.

However, when we look more closely, we find that things are not what they seem. In fact, the grocery channel is far more consolidated than many of us realize.

Between 1999 and 2006, the average share of the top-three operators in a given market increased by 34.4 percent (based on 50 measured IRI markets in 1999 and 64 in 2006). And the rich are getting richer. Market shares of number-one operators grew the fastest, increasing by 38.1 percent.

In 1999, just *two* markets were dominated by operators with more than a 50 percent share (H-E-B in San Antonio and Publix in Miami). By 2006, *ten* markets were dominated by five operators with a share of more than 50 percent—a *400 percent increase*.

Smaller markets are even more consolidated. While the top-three operators' share of the ten largest markets is 63.3 percent, their share of the ten smallest markets is a whopping 74.8 percent.

These trends imply three basic realities:

1) *Competition will become more localized and shift to more valuable markets.* Now that the battle in small markets has largely shaken out, expect dollars generated by large-scale, multiple-market operators in these small markets to be applied to efforts to grow share in large markets.

In general, large markets are more expensive to operate in, thereby providing advantages to large-scale operators. These advantages are offset to a considerable degree by the difficulties posed by political opposition to big retailers moving into these markets. Such political challenges can deter the largest operators from entering a market successfully, as Wal-Mart has found in Chicago and Los Angeles.

Large operators are not the only participants in the battle, of course, and they don't have all the advantages. Their advantage is offset to a considerable degree by the long-term equity built by local operators

who have proven adept at adjusting to needs of specific markets. For example, Wakefern in New York, as well as the aforementioned Publix and H-E-B, are smart, nimble, and in control of high-stakes areas. They are also focused on establishing points-of-difference.

2) Retailer differentiation efforts will continue to expand beyond marketing programming. Three elements fuel retailer differentiation efforts: 1) assortment defines what an operator is and what it

stands for; 2) private labels provide better margins and exclusivity; and 3) marketing activities help build image, awareness, and profitable volume. Of these three elements, marketing has long been the “weak sister” of retailer differentiation efforts.

During the past 15 years, prescient manufacturers have recognized the potential posed by this weakness and have worked with important retail operators to close mutual opportunity gaps using the manufacturer brand and

non-priced based plans as growth instruments. Now, with better data, a more sophisticated targeting toolset, improved execution and—not least—heightened incentive, it's possible to exploit the benefits of all three elements at store-specific levels.

Aside from the customer-specific marketing programming that's so much discussed (and so obvious), it's already possible to see store-level assortments offered by major operators. And it's possible to see brands offered on an exclusive basis by manufacturers—a functional variant of private label—to specific retail operators on long- and short-term bases. Expect this trend toward local assortments and niche branding to accelerate rapidly.

3) *Consolidation will continue without remission.* In most markets, three major actors predominate. In grocery, such predominance has already occurred in the majority of local markets and this trend will expand to the entire market.

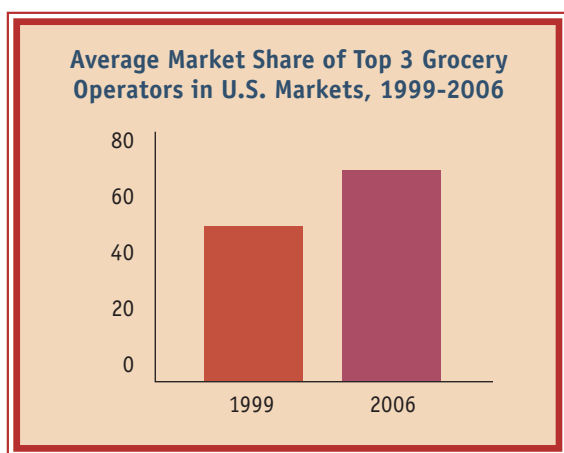
There will be a shakeout. The survivors will be those best at defining themselves in highly differentiated ways at market and sub-market levels. In the medium- and long-term, expect well-entrenched, highly differentiated local-operators to survive.

**Consolidation
is reason
enough to
organize
for shopper
marketing.**

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Market structure will not permit more than one broad-assortment EDLP operator. Wal-Mart's largely unbeatable operating-cost advantage will force rival, broad-assortment EDLP operators to shift focus to non-price based differentiation.

Due to the demands of local markets and the increased capability of operators to service these demands effectively, local marketing will expand. Expect support for supra-market level plans to decline rapidly.



HOW TO RESPOND

Organize. Demand for localized products and services aimed specifically at augmenting customer-branding efforts will inexorably rise. Leaders (and aspirers) in the largest markets will develop market-level products, plans, and programs. If manufacturers fail to comply with market demand, resellers will substitute with plans, products and services provided by rival manufacturers or developed on their own, as they are increasingly willing and demonstrably able to do.

The demands imposed by this environment fall squarely on the shoulders of C-suite inhabitants and require the direct address of daunting, invariably complex, and painfully expensive organizational issues. Yet such things need to be addressed if functional planning groups will be able to work together to handle the requirements of the market.

It's not a marketing issue. It's an organizational strategy issue affecting all internal and external (read: agencies) planning departments. The benefits of the serious address of such issues can have broadly suc-

cessful implications, as Procter & Gamble has demonstrated. But it takes foresight and courage to do this.

Nevertheless, it's a case where consolidation is, at root, a product of the consumer's needs. There's little choice in the matter — organizational issues must be addressed.

Localize. During the structural adjustment the organization must make, functional planning groups have to collaborate to develop product and service offerings that stem beyond the programmatic level.

That means planning outcomes such as exclusive brands aimed at specific target segments within a specific retailer's trading areas, or services aimed to specifically address the operational and demand building needs of major retail players at market and sub-market levels.

On a programmatic level, plans will increasingly focus on ever narrower, market, sub-market and retailer-specific segmentations. The relevance of national programs, at least in so far as retailers are concerned, will continue to decline, unless the strength of the brand is truly exceptional.

This requires greater levels of planning sophistication. If the complexity of co-marketing was difficult to handle — and it still is for many manufacturers — moving beyond simple collaboration to complex, highly targeted shopper marketing plans will require considerable adjustment.

Adjustment is unavoidable. By itself — that is, without needing to examine media fragmentation, consumer disloyalty, population fragmentation, etc. — the effect of consolidation is a more-than-adequate reason to organize for shopper marketing.

Consolidation has helped produce a market structure that compels differentiation. It requires manufacturers to comply with its requirements and produce sharper focus that meaningfully addresses shoppers and consumers as they travel the "last mile" to unique customer environments. ■



CHIP HOYT is executive vice-president of shopper marketing at **OgilvyAction**. A long-time practitioner in the field that has evolved into shopper marketing, Chip can be reached at christopher.hoyt@ogilvy.com or 212-297-7801