Convenience Store News

Rising Costs Push Retailers to Shift Strategy

JERSEY CITY, N.J. -- In the face of rising commodity prices and increased competition, food retailers -- both traditional and non-traditional -- need to take a step back and reexamine their strategies to attract and keep customers.

Speaking during today's Webinar, "The Future of Food Retailing," Michael Sansolo, treasurer of The Food Institute, explained that the food retailing industry is always changing, but is currently in the midst of what may be the most "tumultuous change we've seen in decades."

The Webinar, presented by The Food Institute in cooperation with consultant group Willard Bishop, pointed out five key facts facing the industry:

• Food price inflation will be significant for the next three to five years, driven by rebounding commodity costs;
• High levels of unemployment and underemployment will persist over the same time period;
• Many retailers and manufacturers are passing through cost increases, ultimately reaching the consumer;
• Those actions will have negative consequences for both sides; and
• Retailers who limit their price increases and maintain margins through better procurement, smart pricing and enhanced private label mixes will benefit disproportionally.

The long-term upward trend in pricing is partially supported by China, India and other emerging countries as their per-person calorie intake increases with wealth, explained Jim Hertel, managing partner at Willard Bishop. In addition, growth in alternative fuels is continuing to drive the price of corn up. To this point, almost 40 percent of the corn crop is dedicated to alternative fuel and not feeding people, he added.

Fueling the problem, Hertel contended, is that unemployment in the United States continues to hover around 9 percent; when added to underemployment, the combined number is projected to go as high as 20 percent over the next few years.

Commodity prices started on a downward slide in 2009 and continued on that path through mid-2010, he explained. However, there has been an uptick in those prices since then, and "everybody is expecting commodity prices to go up" even more with weather here and in Europe playing a role.

Despite some bounce-back in economic conditions over the past year, consumers are starting to get nervous again. "Economic pressures are having a profound effect," said Craig Rosenblum, business development partner at Willard Bishop. He said while some jobs have started to come back, that figure is not keeping pace with those out of work.

"Personal income has become stagnant or is going down," Rosenblum explained, adding that this is affecting how many dollars consumers have to spend on food. "It is kind of déjà vu of what we saw three years ago. In the end, the shopper is only going to have $100 or less to buy the same amount of groceries."

To weather the recent storm, Hertel said, retailers need to take a better approach. Specifically, they need to get more creative negotiating prices with manufacturers; they need to use all their price image enhancement levers; and they need to optimize private label/branded product lines.

Rosenblum further explained that "a good price image is about more than price." Of the six dimensions to price image, only three are price related (shelf prices, promoted prices and known value items), the remaining three (per-unit prices, merchandising and price communications) are not, he said.

But manufacturers are not off the hook. There are several steps they can take as well, Hertel said. For example, they can try to understand how retailers' price image is developed and how their categories impact that. Manufacturers can also make pricing suggestions in context of enhancing retailers' price image, and focus on helping with non-price elements. Furthermore, he said, they can develop merchandising plans and point-of-sale materials that will help enhance the price image.