Mega trends: I. Consumer well-being and health

Author(s):
Hughes, David

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Mega-Trends:
I. Consumer Well-Being and Health

• improved knowledge of relationship between diet and health
• ageing population and search for elixir
• “look good” society
• rising personal cost of healthcare
• in this century, my health is my responsibility
• concern about food safety
• impact of food production on the environment

New product introduction impact:

• lifestyle versus medical
• food plus and food minus

• natural and organic
• vegetarian
Mega-Trends: II. Convenience and More

- two income households and changing household size
- increased pace of life
- trading up
- blurring of eating occasions e.g. breakfast-snack-”deskfast”
- blurring of mode-of-purchase i.e. food service and retail boundaries merge

**Meal solution categories include:**

- ready-to-make (e.g. raw ingredients)
- ready-to-prepare (e.g. pasta and sauces)
- ready-to-heat (e.g. ready meals)
- ready-to-eat (e.g. takeaways, hand-held)
FOOD PREPARATION AT HOME

Home cooking time

2.5 hours 1 hour 0.5 hours 15 mins 8 mins


Traditional cooking
Modern appliances Prepared foods Fresh and frozen foods Home delivery

1920 1940 1960 1980 2000 2020
Mega-Trends:
III. Pleasure and Status Indicator

• debit and credit philosophy
• income rich-time poor, and income poor-time poor (both stress-inducing)
• trading up
• increased travel
• TV chefs and media
• ethnic population and restaurants

New product introduction impact:

• exotic flavours
• ethnic flavours
• traditional tastes
• premium products
• premium “look-alikes”
Apart from price, what factors influence your purchase decision most?

In order of importance (across)

- convenience/ease of preparation
- taste
- sell-by-date
- healthy version
- home grown
- ingredients
- organic
- appearance
- brand
- non-GM
- free range
- assurance

source: IGD Imperial College 2000
# Potatoes Are a Staple Food: Difficult to Add Value?

<table>
<thead>
<tr>
<th>Frozen</th>
<th>Retail € per Kg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microwave Chips</td>
<td>8.87</td>
</tr>
<tr>
<td>BEW Waffles</td>
<td>6.34</td>
</tr>
<tr>
<td>McCain’s Smiley Faces</td>
<td>3.53</td>
</tr>
<tr>
<td>Waitrose Croquettes</td>
<td>2.40</td>
</tr>
<tr>
<td>Chip Shop Fries</td>
<td>1.95</td>
</tr>
<tr>
<td>Somerfield Crinkle</td>
<td>1.56</td>
</tr>
<tr>
<td>Waitrose Chips</td>
<td>1.15</td>
</tr>
<tr>
<td>Somerfield Basic Fry</td>
<td>0.56</td>
</tr>
</tbody>
</table>

Source: Waitrose and Somerfield, February 2001
## Market Share of Top 5 Grocery Chains in Europe by Food Turnover, 2000

**Rank** | **Country**         | **Market Share** |
--- | ------------------- | -----------------|
1   | Norway             | 98.5             |
3   | Sweden             | 94.3             |
6   | Denmark            | 79.3             |
8   | France             | 76.4             |
11  | UK                 | 63.4             |
14  | Germany            | 61.8             |
16  | Spain              | 53.7             |
18  | Czech Republic     | 30.3             |
19  | Italy              | 28.0             |
20  | Poland             | 16.8             |

*Source: M+M EUROdATA*
Retail Globalisation Criteria

- global turnover
- countries of operation
- key region presence
- home market dominance
- clarity of global strategy
- global culture
- cross-corporate information sharing and learning

Source: IGD 2001
## Who Are The Global Retailers?

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Carrefour</td>
<td>France</td>
</tr>
<tr>
<td>2.</td>
<td>Ahold</td>
<td>Neths</td>
</tr>
<tr>
<td>3.</td>
<td>Wal-Mart</td>
<td>USA</td>
</tr>
<tr>
<td>4.</td>
<td>Metro</td>
<td>Germany</td>
</tr>
<tr>
<td>5.</td>
<td>Ito Yokado</td>
<td>Japan</td>
</tr>
<tr>
<td>6.</td>
<td>Delhaize</td>
<td>Belgium</td>
</tr>
<tr>
<td>7.</td>
<td>Tesco</td>
<td>UK</td>
</tr>
<tr>
<td>8.</td>
<td>Casino</td>
<td>France</td>
</tr>
<tr>
<td>9.</td>
<td>Auchan</td>
<td>France</td>
</tr>
<tr>
<td>10.</td>
<td>Aldi</td>
<td>Germany</td>
</tr>
</tbody>
</table>

*Source: IGD 2001*
### Compound Annual Growth Rates in Sales, Profitability And Capital Investment for Selected Major European Grocery Companies 1996-2002

<table>
<thead>
<tr>
<th>Company</th>
<th>Sales Momentum</th>
<th>EBITDA Momentum</th>
<th>Capital Expenditure Momentum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ahold</td>
<td>27.8</td>
<td>29.7</td>
<td>35.1</td>
</tr>
<tr>
<td>Carrefour</td>
<td>22.1</td>
<td>26.9</td>
<td>17.0</td>
</tr>
<tr>
<td>Casino</td>
<td>15.4</td>
<td>21.9</td>
<td>17.9</td>
</tr>
<tr>
<td>Delhaize</td>
<td>13.6</td>
<td>18.0</td>
<td>8.9</td>
</tr>
<tr>
<td>Metro</td>
<td>11.6</td>
<td>15.8</td>
<td>10.8</td>
</tr>
<tr>
<td>Tesco</td>
<td>11.5</td>
<td>11.8</td>
<td>19.4</td>
</tr>
<tr>
<td>J. Sainsbury</td>
<td>5.0</td>
<td>2.5</td>
<td>5.6</td>
</tr>
</tbody>
</table>

1. 2002 figures are forecasts. CAGR based on total international sales
2. EBITDA: Earnings before Interest, Tax, Depreciation, and Amortization

Source: Commerzbank AG, Frankfurt am Main, Germany, 2001
What’s constraining the Wal-Mart Tidal Wave across the Globe?

- national/regional markets still differ
- this limits buying scale opportunities (relative to US)
- stronger trade unions in Europe, Australia
- defensive mergers reduce acquisition targets
- strong competitors (e.g. Tesco, Carrefour, Ahold)
- Wal-Mart slow to adapt to non-American environment
- internet technology gives competitors opportunities to implement “fast catch up” IT initiatives
Manufacturer Responses to the Changing Global Grocery Marketing Environment:

Avoiding the ‘Boiled Frog’ Syndrome

• innovate - NPD and everything
• cost leadership - a necessary condition, not an option
• join a buying group for basics
• geographic diversification - beware ‘Chinese Market Myth’
• search for and dominate growth categories
• identify new consumer needs and invent a new category
• expand and develop new routes to the consumer
Avoiding the ‘Boiled Frog’ syndrome (continued):

- reduce brand portfolio and focus more R&D and promotional spend on fewer brands
- target markets where you can be No.1
- make your brand the most profitable (attractive) in its category for your customer
- develop new brands based on proprietary technology
- gain exclusive access to key raw materials
- develop alliances - horizontal and vertical
- simplify the merchandising approach - EDLP
- consider the unspoken and produce retailer private label!
Only 10 per cent of Top 100 Brands launched in last 10 years

Years since launch

no. brands

0 10 20 30 40

< 1yr 1-5 yrs 6-10 yrs 11-20 yrs 21-30 yrs 31-50 yrs 50 yrs+

Only 10 per cent of Top 100 Brands launched in last 10 years
90 Per Cent of New Food and Drink Products Fail within Two Years

- True innovation greater success rate than “Me Too” or line extension

- Products must deliver concept promise

- Long term support - persistence essential

- Major category players most successful

- First to market have lasting advantage

- Trial rates key factor influencing sales volume
Frozen Category: Shopper Research

- Shopper research studies in the UK, Belgium, Italy and Germany consistently identify the Frozen Category as having low interest for consumers instore.

- Consumers describe it as:
  - Visually unappealing
  - Cold, sterile, hospital like
  - Difficult to see what’s available and find what you want
  - Complex
  - Unexciting
  - Does not stimulate impulse buying with little time spent browsing

\[ \text{lack of consumer satisfaction} \]
Early 1990s criteria were:

- technical excellence
- hitting service levels
- price competitive

Beginning of 2000s, add on:

- strategic orientation
- innovative
- offering some exclusivity
- profitability