

High-Frequency Retailers

Featuring:

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Thanks for listening in. My name is Jim Lucas and I'm the Director of Shopper Marketing at Draftfcb. This is the first of what we hope will be an ongoing series of podcasts where Draftfcb employees share insights both about the industry as a whole and advertising and marketing as we see them changing and evolving today.

The first podcast we're going to cover is the ever-changing world of retail in the U.S. And again, this is one of those things where retail probably changes every day. If you look at the newsletters that are on the blogs now, you'll see that you probably get five or six things that are coming in every single hour on changing retail. And what we want to do is take a look at this and see what kinds of new things we're seeing in terms of shopping behavior.

One of the things that we've seen is that it's been about sales, sales and more sales. Most of the retailers have had to cut back sharply on prices to attract more traffic.

I think the second thing we've seen here has been a little bit unusual for most of the retailers. This year we had an extra week of sales time before Thanksgiving. A lot of the increases were viewed as nominal because if you factored out that extra week of sales you had before Thanksgiving, most people saw about a 1% to 2% increase in sales. It's been a little bit warmer than usual and I think that's one of the things that's contributed to low sales. A couple of recent cold snaps have helped, but you're only going to buy one winter coat. Also, we know that shoppers are going to be a lot more cautious this year about their spending because the economy has been much tighter. There are a lot of confidence issues among consumers that are tied to

what's going on with the sub-prime market, and gas prices, and so forth. So we think that people are still pretty cautious about what they're doing. A lot of trading up, and a lot of trading down seems to be going on with shoppers. In some cases they will trade up to make sure that they can get something they want; Something that they really think is the key gift for somebody. But they're also trading down on a lot of other items.

We're starting to see the retailers responding very early to this by slashing prices and expanding their hours. We saw a lot of the 4:00 a.m. openings, the 12:00 midnight openings. All those are the kinds of things that the retailers have been trying to do to get a jump on sluggish sales. Probably the biggest example of this has been Wal-Mart.

This year we have seen about 40% of shoppers starting their Christmas shopping by Halloween. In many cases, people would go into the store for their Halloween candy and decorations and find the Christmas decorations on the next shelf. And this is really the second year in a row we've seen that kind of thing starting to happen inside retail stores.

Another change we've seen has to do with where and how people are shopping. We've seen a huge online surge, as we expected, with increasing potential for growth. We've also seen that the online markets and the brick and mortar stores have started to become much more symbiotic in their relationship with one another, rather than competitive. What we have started seeing is a lot of people are pre-shopping online. And research shows that people who do their pre-shopping online, actually spend a lot more time inside the stores.

Another point related to this is that shoppers who tend to be multi-channel shoppers are the ones who spend a lot. More often three to four times more than somebody who's just shopping one of the channels of retail.

So this has been one of the things that's continued to be a big trend. And I think one of the other things we've seen is a rise in traffic for high-frequency retailers. People are moving away from daily or weekly purchases from the big box stores. Big box stores still account for shoppers'

monthly stock-up trips. But increasingly, people are starting to go to some of the smaller format stores—say under 20,000 square feet—for many of their purchases.

What we've started to see both in the U.S. and globally is a move towards some of these high-frequency retailers. They are helping to redefine traditional shopping trends. The biggest change has been with supermarkets, which have posted a net loss of shoppers. The average shopper once made 72 to 75 shopping trips a year. Now it's probably closer to 65. What's happened is the trips have become a little bit sharper in terms of their timing and focus. They tend to be about 15 to 20 minutes in length and the average ticket is around 20 to 30 dollars.

We've also seen people going to more specialty stores. Consider the pet stores. There are also a number of new retail formats that have emerged as the "new convenience store," if you will.

The Dollar Store. The drug store. These places have started to emerge as a kind of new "corner store." It is the kind of convenience store that most people are looking for, especially women. And I think that's going to be one of the things that shape the way the world does their shopping in the future.

We saw it happen with Tesco when their new, "Fresh and Easy" concept was introduced in the West. And they're looking to open up stores in Phoenix and Las Vegas as well. Preliminary reports are interesting. There's a heavy, heavy interest because it's been focused on a limited number of SKUs—around 5,000. And a smaller store format is very conducive to what people on the West Coast are doing in terms of their car culture. Typically, people will say, "If I need something, I'm going to the corner drug store."

In terms of the global trend, we've seen this in places like Latin America and Asia. But also in some parts of Eastern Europe where organized retail is not as well developed right now.

Increasingly there's a notion of big store versus the local ma and pop. In India, for example, there are roughly 15 million *kuranas*, which are the ma and pop stores. How are the ma and pops

pitted against the large stores? Reliance Industries of India and a number of other chains are aggressively expanding their presence within this small store format.

The *tienda* in Mexico, the *kurana* in India, and the ma and pop stores in China have become a primary focus for a lot of marketers. Part of this focus stems from the small store's ubiquity. Shoppers go to these places very regularly—weekly, daily or several times a day. And what we found was that these stores are a good medium for many manufacturers' packaged goods because of the frequency with which shoppers appear.

Small shopkeepers have a much better relationship with their shoppers. They often have 65 to 100 shoppers who are committed to their store. There exists a unique relationship between shopkeeper and shopper. There is trust. Sometimes the shopkeeper is advisor. Sometimes a banker. Sometimes the lighter or the pantry. These are some factors that have influenced decision-making with people like P&G, Unilever and Cargill. They have all started to focus a lot more on these markets as they look to the future.

What we've also seen is a similar kind of experience in the U.S., especially among Hispanics with *bodegas*, for example. They represent kind of a central lifestyle component for daily routines the Hispanic community finds important. Smaller stores have a very close relationship with their shoppers that we don't see in other places.

In developed markets like Europe and the U.S., especially Western Europe and Canada, retailers like Tesco, Carrefour and So-Be have all used smaller formats to increase sales in urban settings.

If you look at Tesco, they've got about five different formats that they go after. And you look at what they're doing, everything from the Express and the Metro in the retail urban settings, to the things like their hyper marts which are a lot more likely to be on the suburban rings. These have been very successful in terms of generating sales, but what's happened is they've really transformed the store. They are much more focused on food and they are open 24-hours, which is perfect for an urban setting.

According to research by Nielsen, smaller retail formats have continued to grow. And if you look at those retail formats of under 15,000 square feet versus the larger formats, medium-sized formats have probably done the least business. Larger formats of 100,000 or more have really seen the greatest gross sales. So, the under 15,000 and the over 100,000 square-foot formats have experienced the greatest growth largely at the expense of the medium formats, like the supermarkets I mentioned.

Also convenience stores have started to make inroads. Firms like Sheets or Wawa have really done a lot to develop their environments well beyond the typical convenience store. It's almost like an adventure to wander into one of those places. You can order off of a kiosk. All kinds of selections are available inside.

One of the more interesting things we've seen recently, off the Ohio State Campus, is what Kroger has developed called the Kroger Right Now concept which is a 24/7 concept tied to their petroleum sites. Basically, it's a huge vending machine. They've probably got about 150 to 200 of the most popular SKUs. So everything from the typical snack and beverage stuff you'd associate with it, to traditional things, or stock items that you might need. Ketchup, aspirin and all that kind of stuff is included in there.

Another thing we've seen is that the drug stores are increasingly becoming the convenience store or the corner store. The five and dime store of the 21st century. What is interesting is that these stores are convenience stores, but ones that are much more amenable to and accommodating to the female shopper. A lot of these drug stores have really revamped their real estate strategy to reflect some of this. Walgreens and CVS have moved away from strip malls and adopted a much more corner-store mentality.

What they've also done is create destinations and various categories inside. Things like one-minute clinics. The pharmacy. Health and beauty aids. Infants, and a number of other categories that all drive traffic. Even now we've started to see things like food inside the drugstores. This is

a good attraction to create reasons to linger because it's really a fast-paced environment. People are usually there only on a quick shopping "mission."

Walgreens has been experimenting with a concept called Café W where shoppers can go in and get soft drinks and coffee drinks inside the store. And again it does a lot to drive traffic.

I think one of the other things we've seen is this move towards convenience. On the West Coast, we've probably seen examples of this with the "car culture" and how it interacts with retail.

What we've seen is the drug store emerging as a new version of the corner store. Like Tesco, with its new Fresh and Easy format, which is largely based in the West. It's where convenience and freshness come together. And I think it's been viewed as a cross between Trader Joe's and Whole Foods. Lots of interesting stuff. If you go to YouTube, you can see a couple of videos of both their grand opening and somebody who's done a tour of it. It's fascinating to see how this ploy out.

What we've seen in these dollar stores is a lot of tremendous growth in recent years, especially under-stored locations in both urban and rural areas, so-called retail deserts where the dollar stores have really taken hold. And I think shoppers frequent these stores for a couple of reasons. They are not only for staples, although it's a good way to get that job done, but they also provide access to affordable, branded CPG products. As well as other affordable items that are more like treasure hunt things like home decorations, baby and infant clothing. Things that allow you to do your treasure hunting.

In one sense it's becoming an ideal kind of retail hybrid that exists inside the urban and the rural places. Frequency of trips are driven by a combination of needs for staples like cleaning products. But also there is this joy of treasure hunting and again we've seen people do all kinds of things inside these stores. But generally they tend to treat it like the dollar store, as a treasure hunt and as an adventure.

So what does this all mean? Well, the store is changing in terms of how shoppers view them and how they use them. And I think this is going to be one of the big opportunities for us. The average person is going to have both small stores as well as large ones within his or her shopping repertoire. And the way they use them will always be a little different. The key is—how do we crack the code in those smaller environments? And leverage what people are purchasing there. We think that those environments are unique in as much as they're places that people visit very frequently. People have a very close relationship with these retailers. Both the person and the selection of things that the retailer has are unique opportunities for marketers to establish a relationship with their shoppers and to fit in with their lifestyles in a much clearer way.

We think that this is going to be a big part of where Shopper Marketing needs to head in the next year or two because this is where the big opportunities are. Think about getting into another 12 or 15 million *kuranas* in India. Just one more product, and that's a lot of volume that could be going in there.

The next time you think about going to the store, what you may want to think about is where you're going to go. And think about where you would go to do your stock-up trip. Where you would go to pick up something really quick. And you'll probably see some of the same stuff applies to you.

Thanks for listening. My name is Jim Lucas, the Director of Shopper Marketing at Draftfcb. Please keep your eyes and ears open for the next Draftfcb podcast.