

The Safeway to Grow

Safeway supermarkets satisfies its shareholders by putting its shoppers first.

If re-thinking store formats, adding new and innovative products and improving the overall shopper experience provide a proven roadmap for sustainable growth, then Safeway is well on its way to winning at retail.

Since 2003, when it first departed on a differentiation strategy, Safeway has converted more than 750 of its stores — nearly half of its retail outlets — to its *Lifestyle* format. Safeway's *Lifestyle* stores feature such amenities as fresh seafood, ready-to-eat meals, an "O" organic brand, appliances and cookware, and Starbucks cafes.

Safeway has made shopping more inviting and friendlier — on the perimeter and in the aisles. The retailer has also adopted category and merchandising concepts, organized by how people use products rather than how consumers traditionally shop.

Safeway's long-term growth strategy is paying off. Sales growth at the remodeled stores along with product innovations are expected to boost sales by more than three percent in 2007, well ahead of its competitors.

The retailer also expects sustained earnings growth of 12 percent to 15 percent annually — again, well beyond other retailers. That should make Safeway's shareholders really happy.

The lesson is, Safeway satisfied its shareholders by putting its shoppers first. It's a lesson not only for other retailers, but also for the manufacturers who hope to drive growth through retail stores.

Both manufacturers and retailers share the same two primary objectives: 1) Build consumer loyalty to *my* brand or *my* store through enhancing the shopping experience; and 2) Maximize shareholder value.

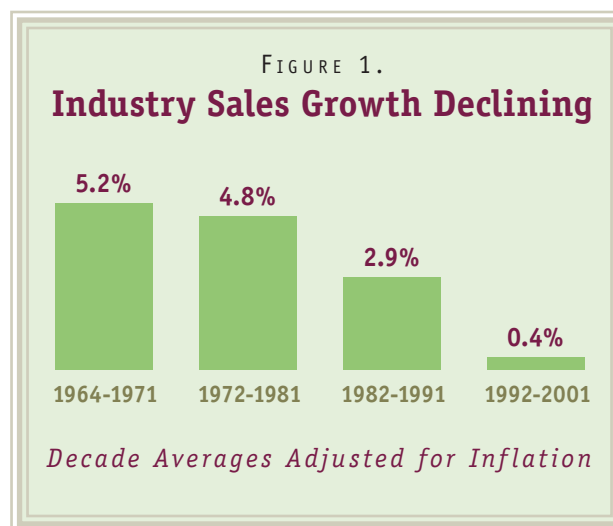
Too often, however, manufacturers and retailers have made the mistake of thinking that these two objectives are in conflict. Some have exacerbated this mistake by taking steps to maximize shareholder value at the expense of a better shopping experience.

The reality is that if manufacturers and retailers are delivering against the first objective they will also meet shareholder expectations, simply because, as Safeway has shown, putting

shoppers first is a sure path to driving growth.

Over the last 15 years or so, the tunnel-vision focus among organizations on boosting efficiency, using platforms like ECR to cut costs across both the supply and demand sides, has stymied shopper satisfaction and, with it, growth opportunities.

Add to this scenario a steady diet of M&A activity, among both manufacturers and retailers, which has



Source: GMDC and Meridian Consulting Group

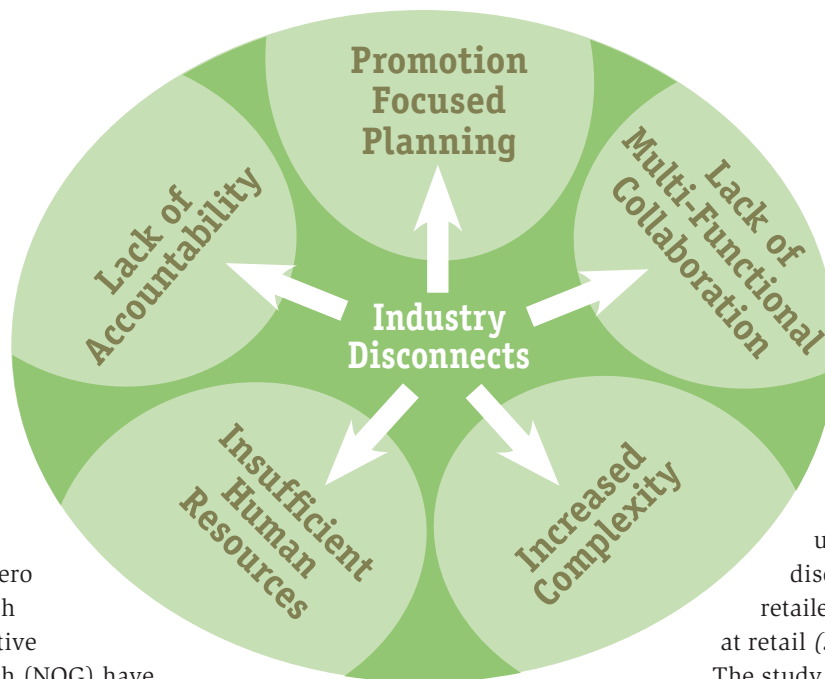


FIGURE 2.
Industry Disconnects

Source: NACDS

helped fuel the push for cost efficiencies. Acronyms like Zero Operating Growth (ZOG) and Negative Operating Growth (NOG) have been the rallying cries, as both retailers and manufacturers struggled to meet Wall Street's quarterly earnings expectations.

Various industry mergers, in which operational costs and staff have been continuously slashed to help fund the costs of the merger, are perfect examples of the downward negative spiral of putting operational efficiency ahead of marketing effectiveness.

Just as clearly, driving growth is not as simple as introducing new product innovations. A study Meridian Consulting conducted in partnership with the GMDC found that even though CPG companies are steadily increasing their emphasis on new product development through higher R&D spending, the rate of sales growth is declining (see Figure 1).

This sluggish growth is especially problematic for warehouse-delivered manufacturers, who are contracting with third-party brokers and distributors. These resources, as with manufacturers and retailers, have now consolidated into a few "mega" service providers.

These consolidations have left these third-party providers swimming in debt and facing similar issues of how to maximize their earnings versus satisfying the needs of their manufacturer customers. As a result, manufacturers find themselves competing against one another for coverage from brokers and distributors instead of satisfying their consumers by improving the shopping experience.

Let's look at the drug channel to see how that segment is addressing this issue. A few years ago, the NACDS fielded a study to gauge the level of effective-

ness at the store level. The study uncovered a series of disconnects between retailers and manufacturers at retail (see Figure 2).

The study found that both retailers and manufacturers were frustrated by these disconnects. According to one study respondent:

"We've made progress to improve collaboration around technology and logistics in store, but when it comes to the stores, we do not work together." Another reports: "We spend weeks and months completing templates and developing plans, but rarely does it come together in the stores."

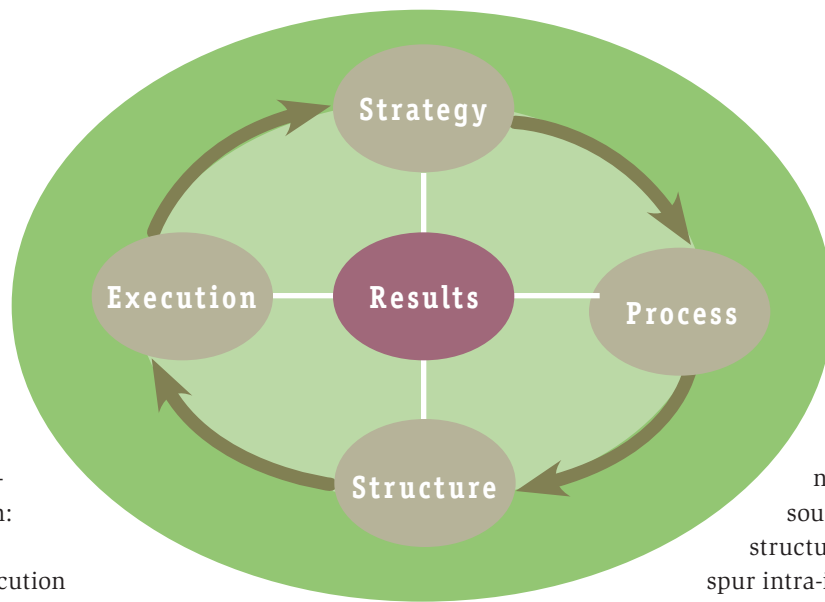
Disconnects were found across all of the fundamentals—in areas such as display, pricing, planogram, new items and in-stocks. Would these shortfalls be tolerated with order-fulfillment or on-time delivery measures of service reliability? And how can we improve results at retail in a business relationship that is characterized by a lack of understanding about the need to measure, what to measure, how to measure and what might be the solution to remedy the situation?

As the NACDS study revealed, if both sides simply agreed to do what they said they would do, estimated revenue growth for the industry would increase by about nine percent.

Fortunately, as the GMDC study indicated, a marked shift is occurring in the CPG industry. Organizations are recognizing that they can no longer cost cut their way to growth or generate growth by squeezing efficiencies.

A new—and much more enlightened—conversation is emerging among retailers and manufacturers that is focused less on cost control and efficiencies and more on how to achieve sustainable growth.

An effective go-to-market approach requires a business framework that drives growth by integrating



all the elements comprising the go-to-market platform: strategy, process, structure and execution (see Figure 3).

Strategy. Greater attention needs to be given to new channels and usage occasions as part of a broader strategic channel process. With the nature of service offerings evolving, brand marketers must transcend the traditional four Ps (product, price, promotion, placement).

Manufacturers also need to expand their focus beyond *master-branding*, to encompass a broader definition of service offerings to enhance the overall consumer shopping experience.

Process. Manufacturers must take a broad-based look at all aspects of the go-to-market approach, as part of a *reinvention* process. To overcome the natural tendency for *business myopia*, they need to:

- Look beyond their own industry for business models that lend themselves to innovation, differentiation and deepening their knowledge base.
- Apply new research tools to assess business models and shopping dynamics that leapfrog current business practices.
- Make change integral to everyday business operations.

Structure. Creating an organization that can support growth goals often requires organizations to abandon traditional personnel management structures. The GMDC Study revealed three guiding principles:

1) Create innovative, outside-the-box thinkers tasked with multiple responsibilities. Then, develop a work blueprint that defines the multi-disciplinary work against growth-focused strategies.

2) Marry internal and external resources in organization structure designs to help spur intra-industry thinking.

3) Recognize that a change in structure alone will not drive the organizational change needed for top-line growth. It needs to be in sync with strategies and processes.

FIGURE 3.
Framework for Growth

Source: Meridian Consulting Group

Execution. Executing a growth strategy relies on marketing through the retailer using multi-channel vehicles and a broader array of marketing tactics.

Savvy brand marketers will exploit the shift in retailers' marketing vehicles, putting greater weight behind alternative vehicles such as the internet, in-store technology and presence marketing. The growth of buzz marketing in certain categories and the promise of ethnic marketing also offer strong potential as part of a top-line growth strategy.

This fresh look at the go-to-market approach requires a renewed commitment to retail. It requires organizations to ensure that strategy, process, structure and execution work in concert to realize top-line growth.

For manufacturers and retailers alike, winning at retail begins with a renewed commitment to building consumer loyalty to *my* brand and *my* store through enhancing the shopping experience. As Safeway has shown, putting the shopper first is a sensible way to drive the kind of growth that shareholders demand. ■



KEVIN O'MAHONEY is managing director of **Meridian Consulting Group**, a management consulting firm specialized in helping product marketers gain competitive advantage through strategic working relationships with retailers. Email: omahoneyk@meridianconsulting.com