



# Death By A Thousand Cuts

**T**he nature of the competitive challenge posed to the contemporary supermarket produce department has changed. Not all that long ago, the main concern was that another supermarket chain was opening in town and that the new stores would drive the existing chain out of business or at least take substantial market share. This was a dangerous situation, but at least the threat was clear. A new direct competitor is on its way and stores need to fight back. New stores must be built, remodels performed, pricing must be aggressive.

But today the situation is different. It is the exception that the major competitive threat is a new supermarket chain coming into town, anxious to take major market share. More typical is that supermarkets and their produce departments face death by a thousand cuts — death not from one new chain seizing 40% of the market, but instead from a plethora of new formats, each one seizing a few percentages of the business.

So the wholesale clubs come into town and grab 4% of produce sales. A whole foods chain, emphasizing a “back to the earth” atmosphere, opens and takes 6%. Fast food restaurants open their drive-through windows at 7:00 a.m. so workers can pick up a salad for lunch on the way to work — another 1% of business is lost. A supermarket chain opens specializing in small stores with limited variety and low prices, taking 6% of the market with them. Then we have gourmet stores, farmer’s markets, flea markets, U-Pick operations, supercenters, hypermarkets, home delivery services and more.

What it all boils down to is that it is increasingly hard to compete if your goal remains to be the broad-based supermarket attractive to 95% of the people in the community. Instead the trend is to the development of niche operations, each one dedicated not toward capturing the entire market, but instead dedicated to doing a great job serving a specific consumer segment.

There are lots of ways to pursue specific consumer markets. One is by setting up different divisions. Vons, for example, followed this course in setting up its Tianguis division to serve the Mexican-American population in its market area.

Another is to actually develop a specialized chain. Fresh Fields in the D.C. area is an example of a chain specifically geared toward a whole foods market niche. In some cases the type of niche marketing that’s needed can be obtained simply by adjusting the internal merchandising strategies of individual chain stores. Under this approach, the outside banner and advertising may remain unified as a chain, but each individual store is given a distinctive merchandising philosophy, and typically is reformatted to appeal to the local ethnic or religious population.

Many conventional supermarkets are redirecting their efforts to appeal to niche markets. If you go into a store and see a conventional produce item, accompanied by a higher priced premium version of the same item as well as a less expensive “club pack” of the same item, that store is engaging in niche marketing, appealing to

customer segments with different spending patterns.

We’ve only begun to scratch the surface of niche marketing in produce and supermarkets generally. The key is going to be tapping into new technologies of communication and promotion. As long as stores are confined to attracting customers from within 3 miles (as most are), it is only in the most densely populated areas that stores can appeal to specific behavioral or psychological consumer attributes as opposed to simply serving the local community.

Traditional micro-marketing has meant that a chain with stores in an area heavy with young Chinese people should market specifically to that group and that the store should be different from stores in a community with Jewish senior citizens. But the next stage of niche marketing is more exciting and holds more potential for differentiation. New technology is making it possible for a store to micro-market, not to a traditional community group, but instead, stores now can develop an identity and reach out to those consumers who specifically have an affinity for that identity and then build a business based on the unique identity the store has developed.

For example, a store might reposition itself as a “Health & Fitness” grocery store. The store could perhaps refuse to sell certain “unhealthy” items, signing everything with health tips, sponsoring lectures and marathons. The store could promote itself on health-oriented cable channels and use direct mail to attract customers with special needs. How about a direct

mail program to households with a member who has diabetes, promoting a new prepared meal that meets the nutritional needs of a diabetes sufferer?

People will travel quite a bit to access this type of retailer. All of a sudden, the stores are freed from their total dependence on an immediate community and they start being able to reach out to a distinct base of customers and building their own destiny. A small store, outgunned by bigger competition, may not have to close, because although it is a small general purpose supermarket, the same facility might be repositioned as an extra large whole foods market or other specialized retailing approach.

The new world of niche marketing is very exciting, because instead of putting retailers in a defensive, reactive mode, it puts retailers in a progressive, decisive mode in which retailers define the type of customer they want to attract and then build and operate the stores that will attract the customer.

It means that we are a little more in control of our destiny, and that is an empowering feeling. In addition, it means that produce will be marketed not as a “here it is, come and get it” commodity but instead as a product whose advantages to specific people will be highlighted and promoted. All the specifics that motivate usage, such as personal goals, family health history, etc., are far more likely to be addressed by niche marketers than they are today. That should translate into greater produce sales, and that’s good news for everybody.

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