STORE WARS
SECOND EDITION

Completely revised and updated, Store Wars brings right up to date the struggle between manufacturers and retailers for control of MINDSPACE and SHELFSPACE in developed markets, emerging markets and the internet. This is a must-read book if you work in retail, FMCG, marketing or consumer goods.

Consumer marketing and consumer purchases, drive our modern world. The world market is quickly dividing between a few mega-manufacturers that market worldwide and international retailers who are striving to catch-up and dominate.

Marketing for FMCG manufacturers and retailers is coalescing. Every FMCG manufacturer must now understand retailers, their business and marketing strategies, their strengths and limitations. Marketing for retailers involves, for their mushrooming and complex Private Label ranges, adopting the portfolio management and branding techniques of their suppliers. Never has it been more important for each to walk in the other's shoes.

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STORE WARS
THE WORLDWIDE BATTLE FOR MINDSPACE AND SHELFSPACE, ONLINE AND IN-STORE

AHOLD ALBERTSONS ALDI AMAZON ANHEUSER-BUSCH AUCHAN BAT CARREFOUR COCA-COLA COLGATE COSMOTE DIAGEO EBAY GENERAL MILLS HENKEL JOHNSON & JOHNSON KELLOGG’S KODAK KRAFT FOODS KROGER L’OREAL LECLERC LIDL MAGNIT MARS METRO METLLE NOKIA PEPSICO PHILIP MORRIS P&G REGISITT RENCHCRES SEARS TESCO WAL-MART XS RETAIL GROUP 7,ELEVEN

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STORE WARS
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Greg Thain
April 2012
SINCE THE ORIGINAL edition of *Store Wars* was published in 1995, much has changed in the fast-moving consumer goods (FMCG) industry, both for manufacturers and retailers.

Many iconic brand companies, such as Gillette and Cadbury, have lost their independence, swallowed up by bigger players, who see size as crucial in dealing with another of the major changes: gigantic retailers. Wal-Mart’s 1995 sales of $93 billion more than quadrupled to a staggering $405 billion in 2010, with $100 billion coming from outside the United States. This leads to another massive change in the FMCG industry: the rise of emerging markets such as Russia, China, India and Brazil, which have been, and still are, a modern-day Klondike gold-rush for FMCG players, where fortunes can be made and lost. The rapid development of such markets is the prime reason behind global retail sales space more than trebling from 40 million m² in 2001 to 130 million in 2011.¹

Many of the tools used by both manufacturers and retailers in 1995 now have dramatically different levels of potency. Television advertising, the mainstay of the branded manufacturer, can now no longer be relied upon to drive retail listings; instead, marketing budgets have been moving to the Internet and social media. *Private label*, an almost insignificant factor in 1995, has ascended to undreamt-of heights and is the cornerstone of virtually every major retailer’s strategy, in some cases over 50% of their sales. Behind the tools, the information war
has swung decisively in favour of the retailer as the combination of product scanning with loyalty cards has given the retailer almost perfect buying information at the level of individual shoppers.

The purpose of this second edition is to come to the aid of FMCG professionals, both manufacturers and retailers, to put into context and perspective the key events and changes which have taken place within their industry since the mid-1990s. This book will also be invaluable to academics and students who wish to better understand the shifting dynamics within the FMCG, retail and consumer-facing industries.

We shall see that much has changed at the operational level, and we will dig deeper to uncover and highlight the underlying strategic factors of these changes, while demonstrating how they should now be applied in the new reality of the twenty-first century. With over 100 examples and case studies from dozens of markets, we present the most comprehensive insight into the modern-day FMCG industry.

In Chapter 1, we take a strategic overview of the evolution of the FMCG industry and see how power has shifted not just in one direction from manufacturer to retailer but also in both ways at various times, driven by technological innovation, social change and, most crucially, innovation within the industry itself as each party seeks to increase its share of transaction profits. A crucial constant in the battle between manufacturers and retailers for a share of profits is the battle to win and hold consumer trust in an era when brand loyalties are more fragile than ever before.

In Chapter 2, we take a close look at the differences between manufacturers and retailers, and we learn how the friction characterising most of their dealings is not a result of similar organisations pursuing different, conflicting goals but of very different organisations pursuing the same goals by very different means. In particular, a lack of understanding of their contrasting financial structures is often the reason why they can respond acrimoniously to the same set of circumstances.
We focus on the manufacturing side and examine how and why manufacturers adopt the types of strategies they do, in Chapter 3. We look at the crucial role of segmentation, when properly applied, in moving companies from the deadly battlefield of price competition to the sunny uplands of profitable growth. However, such markets are very dynamic and we see how companies can easily be tempted by the siren-song of price competition to address failing top and bottom lines. But we also see how price competition can be a profitable and attractive strategy in the fast-moving emerging markets.

We then switch to look at retailer strategic positionings, in Chapter 4, to see that they are much more limited than manufacturers are. Retail chains need to occupy very broad swathes of the market, so tend to be much more closely grouped than manufacturer brands, which can profitably occupy many small differentiated niches. We then examine the emergence of the retailers’ ability to segment their store types by shopping need, meaning that one retail banner can cover anything from a 100 ft² convenience outlet to a 100,000 SKU hypermarket, and see how this multi-format strategy is affecting the retailer–manufacturer interface.

In Chapter 5, we examine in detail the two retailer–manufacturer battlegrounds of shelfspace and mindspace. Previously, these two commodities were fought over between manufacturers, but now the battle rages between retailers and manufacturers. We see how the combination of retailer size, brand-building and robust private label strategies has tilted the playing field heavily in favour of the retailer. Manufacturers now have to be savvier in their approach to winning mindspace, including the retailers’ brands within their competitive sets.

In Chapter 6, we go on to dig deeper into the battle for mindspace and the relative advantages held by manufacturers and retailers. We explore different strategies in building mindspace and look at categories where one or the other player has a built-in head-start. We also highlight the increasing skills overlap between manufacturers and retailers, a consequence of brand-building becoming a core strategy for retailers in recent years.
We deep-dive into the fight for shelfspace in Chapter 7, where we expose the overused delisting threat as being largely hollow. We encourage a systematic approach based on the relative concepts of the cost of switching brands versus the cost of switching stores so that both parties better understand where they have leverage and where they don’t. We show how manufacturers must seek to increase the consumers’ cost of switching brands through their brand-building activities and reduce their cost of switching stores through their distribution strategies. Similarly, retailers must strive to achieve the opposite.

In Chapter 8, we dissect the various means by which retailers can build a sustainable advantage in a category where dominance has been fleeting. The world’s two largest retailers were both founded in the 1960s, a situation unthinkable on the manufacturer side; they tend to be much older and more enduring. We explore the possibilities of fresh produce, multi-segmentation, loyalty cards and price as defendable strategies, we also show how each market has three price positionings, one of which every retailer must choose.

Chapter 9 concentrates on providing an in-depth understanding of the retailer’s single most important competitive weapon: private label. We explain the roles of the five different types of private label offering and how each has a specific role to play in positioning the retailer against its competitors and against manufacturer brands. We also explore the impact on manufacturers of the resurgence of private label as a retail strategy and their need to have a clear strategy on the matter and how its impact can be mitigated.

We then look, in Chapter 10, at the thorny issue of trade marketing for manufacturers, which for some has become their second-largest expenditure, as an interface between their business and the retailers. We explore how trade marketing and brand marketing inherently conflict as they serve different groups – consumers and retailers – who have different interests. Strategies for controlling the spiralling costs of trade marketing are explored, tied into the organisational challenges of accommodating it within a brand-focused organisation.
In Chapter 11, we step back to look at the internationalisation of the FMCG industry, especially with regard to emerging markets, with examples and illustrations from China, Russia, Brazil, India and further afield. We contrast the different rates of internationalisation of manufacturers and retailers, showing how this creates opportunities for the manufacturer. We show how internationalisation for the retailer can be a huge challenge, demanding a new set of skills and attitudes. As we focus on the emerging markets, we show how those markets are evolving at a much faster pace and along differing paths compared to the history of developed markets. We also note the emergence of strong manufacturers and retailers from those markets and the threat they pose to the established global players.

We switch, in Chapter 12, to the virtual marketplace of the Internet and examine the rapid rise of e-retailing and the emergence of e-grocery. We explore the reasons behind the phenomenal growth of e-commerce and look in detail at lessons from successful and unsuccessful e-retailing and e-grocery ventures to better understand the impact this channel will have on the FMCG category. We see how having the right business model is critical for retailers and how mobile presents enormous opportunities for retailers.

Finally, in Chapter 13, we pull together all the insights and predict what the future will be like for manufacturers, retailers and e-retailers. We see how consumers will be much more brand-neutral, in that they will be happy with the right branding from any party. This will force manufacturers to make much harder choices about their brand portfolios and force them to adopt genuine premium, value or industrial strategies, and we explore the organisational implications of each. Similarly, retailers will have to embrace e-retailing and fight off the challenge of the vertically integrated specialist, category-killer retailer, or suffer the consequences. Finally, we make a series of predictions of how we see the FMCG category evolving in the next 5 to 10 years.

The insights and lessons from this Store Wars book can be explored in a highly realistic setting in the StoreWars Business Simulation, which, since the mid-1990s, has been recognised as one of the world’s
leading business simulations for executives, senior managers and directors of consumer-facing businesses. The simulation has been run in 43 countries in excess of 700 times and has been used by 60% of the world’s leading FMCG and retail businesses. Academically, the StoreWars simulation has been used by universities across five continents. Full details can be found at the website (www.STOREWARS.net). In addition, this website contains all the charts and tables in this book in full colour, and these will be updated annually to keep you abreast of the inevitable changes in the FMCG world.

Greg Thain
John Bradley

Note

DURING THE LATTER half of the twentieth century, manufacturers had control of virtually all the marketing variables – such as price, promotions and presence on shelf – that resided within the retail environment. Brand-positioning strategies always included the consumer price point for the brand, which could then be counted on to appear in-store. A shortfall in distribution was seen as a tactical failure of the manufacturer’s sales department to negotiate properly with their customers, a failure that could be easily rectified. Manufacturers cared little in whose shops their brands were bought as distribution was near universal. However, shifts in the balance of power between manufacturers and retailers have made this era obsolete. In June 2009, Progressive Grocer reported:

Five years ago, manufacturers and retailers say they held equal shares of power in their partnerships, but today, manufacturers believe that retailers control almost two-thirds of the overall power and will extend their control to 71 percent five years from now, while retailers believe they currently control 60 percent of the overall power, and expect to control nearly two-thirds in five years’ time.¹

Manufacturers’ sources of power from the past no longer work today. They used to be the sole provider of consumer knowledge, but they have been overtaken by retailers’ own information, analysed by
experts. For example, 28.5 million shoppers use Tesco’s loyalty programmes. In 1994 Tesco’s hired dunnhumby to help them analyse their database, and within three months then Tesco Chairman Lord MacLaurin was moved to say, ‘What scares me about this is that you know more about my customers after three months than I know after 30 years.’

The conversation between retailers and manufacturers used to be dominated by the manufacturers’ latest brand initiatives, but it is now dominated by retailers’ latest supply chain initiatives. Retailers used to welcome brand innovation for the store traffic it would drive, now they often lead the way innovating under their store brands. Whereas the marketing budget used to be dominated by television advertising, now manufacturers pay more for retailer-related costs than consumer-related costs, spending anywhere between 10 and 25% of their annual revenues on trade deals, the second-biggest cost after manufacturing. Savings from reducing overheads and improving productivity have been generated to help offset the increase in trade spending, but many manufacturers are forced to spend less on consumer marketing to balance the books and remain profitable.

The outcome of these shifts is that manufacturers now have to consider retailers as a separate and dominant force in the market rather than compliant minions who could be relied upon to do their bidding. Thanks to the success of private label strategies (see Chapter 9), five of the top eight FMCG manufacturers in the world are actually retailers; giants such as Unilever and Coca-Cola are no longer even in the top ten, their global sales dwarfed by products under the names of Wal-Mart (now the world’s largest FMCG manufacturer), Carrefour, Tesco, Aldi and Lidl. The branded manufacturers who have been tempted to produce private label are in no doubt where the power now lies. Indeed, it is rare for a branded company to even admit to being involved in private label; Weetabix are an example of one being open about their involvement. Unilever, PepsiCo, Nestlé, Heinz, Playtex, Ralston Purina, Hershey, RJR Nabisco and McCain are less public about their move to the dark side.
But such shifts are neither a recent phenomenon nor an irreversible tide of history. To better understand how and why they have occurred we need to analyse the basis of retail power and examine how and why the balance of power in the value chain has shifted over time between manufacturers, distributors and retailers.

The emergence of branding as a value chain weapon

The history of trade is dominated by a struggle for the control of profits between producers, distributors and retailers. In the early days of the consumer economy, ‘Mom and Pop’ retailers were serviced by a complex network of middlemen who supplied mostly generic products sourced from a multitude of small-scale manufacturers. The anonymity of the products meant that manufacturer accountability for product quality was non-existent; shoppers neither knew nor really cared who made them. Retailers were the key players. Since they were the last stop in the supply chain, they were the only party the shopper could hold accountable as guarantor of the quality of goods purchased. As a counterbalance to retailers’ necks being on the line with regards to quality, they had the ability to set prices, most often individually by shopper, which gave them a large degree of control on the transaction profits.

The more enlightened retailers realised they could increase turnover and hence profits by becoming an attractive destination. One way of achieving this was by gathering themselves under one roof, where their combined pulling power benefited all with the extra shoppers who thronged in their thousands. While the first recognisably modern shopping mall was the Southdale Shopping Centre, opened in Minneapolis in 1956, London’s Royal Exchange, opened in 1568, fulfilled a very similar purpose. The invention of plate glass revolutionised retailing and was used to impressive effect in Paris’ Palais Royal in the late eighteenth century, which spawned the nineteenth-century retail
cathedrals that were to be found in London, Paris, Vienna and most large cities, attracting shoppers from far and wide.

The only way for distributors and manufacturers to end this relative dictatorship of the retailers on the size of the cake and their taking the biggest slice, was to take away their status as the ‘agents of trust’. If a member of the supply chain was willing to take responsibility for product quality and to stake their reputation on it, they could then inform the consumer of the product’s quality by placing some kind of mark on the product and (it was hoped) thus create a demand for their products as opposed to anyone else’s – and the notion of brands evolved.

The first brand used on packaged goods was created almost 2000 years ago in Pompeii. The product, Vesuvinum, which combined Mt Vesuvius with the Latin word for wine, vinum, was a type of red wine – a category highly vulnerable to middlemen adulterating the quality with cheaper wine, water or worse. Rome’s brick-makers also employed branding devices imprinted onto the bricks such that buyers in the city’s brick market could recognise those bricks built to last. The United Kingdom’s first brand trademark was registered in the late eighteenth century: the red triangle on bottles of Bass Pale Ale Beer, sold around the world.

It was essential that the branded manufacturer be able to package their product securely if their guarantee of quality was to be worth anything. Many packaging breakthroughs came about as a result of the demands of warfare. Foods became practical for mass manufacturing and branding with the invention of airtight food preservation in bottles by Nicholas Appert, in response to a prize offered by France’s Napoleonic government as a means of feeding the Emperor’s armies. The process for canning food was patented in 1810 but was slow to catch on, not least because the can opener was not invented for another 45 years. Similarly, the American Civil War gave a huge boost to embryonic food producers as the massive military orders forced them to scale up and reap huge economies of scale; prices consequently plummeted, making their products much more affordable when peace returned.
Many of the famous early consumer brands, such as Procter & Gamble’s Ivory Soap in the United States, and Pear’s Soap in Britain, came from the first manufacturers in the value chain to stake ownership of product quality. Their competition was not other brands – theirs was the first – it was the unbranded and largely untrustworthy generics.

Towards the end of the nineteenth century, after industry manufacturers grasped both the advantages of economics and technology to make branding synonymous with manufacturing, they were able to take the initiative ahead of distributors and retailers because of the scale economies of mass manufacturing combined with developments in packaging and transportation technologies. Together, these enabled the efficient production, transportation and retailing of individually sealed, branded packages, giving the manufacturer a route with which to build and own the relationship of trust with the consumer, and thus leverage with which to squeeze the distributor and have some influence over the shopkeeper.

The demise of the middleman

The middleman had had a good life in the nineteenth century. His monopoly on distribution, particularly in America, gave him substantial leverage over the manufacturer, who was a distant third in the battle for power. But, as middleman, he was vulnerable as he had no direct contact with the consumer and did not have the means to establish branding on the thousands of product lines in which he dealt.

When Procter & Gamble (P&G) were building their new soap brand, Ivory, their route to market was through the middleman. The early advertising was not just singing the praises of Ivory, but directing the shopper to make sure it was Ivory they were buying, thus hoping to generate a pressure on the retailer to ask for it specifically from the distributor.
This advertisement (Figure 1.1),\textsuperscript{5} ‘Examine Before You Buy’, ran in the \textit{Century Magazine} in 1886 – it indirectly encouraged grocers to stock Ivory Soap so that their customers would not be fooled into buying soap of a lesser quality.

The brand sold well with this approach, but P&G were still the poor relation in the value chain and had not been able to shake the grip of the retailer and the middleman on the profits. Despite increasing the investment in consumer advertising – up to $146,000 in 1886, Harley Procter reported that ‘soap is in excellent demand but prices are low and profits small.’\textsuperscript{6}

P&G began to experiment in 1913 with cutting out the middleman by selling and delivering to retailers direct, and by 1921 they adopted the approach nationwide. This was a big bet by P&G.
Overnight, the sales force had to be expanded from 150 to 600, 125 more warehouses had to be acquired, 2000 contracts had to be written for deliveries by trucks and the accounting department had to be reorganised to handle 450,000 accounts.7

A boycott of P&G products by enraged distributors meant that the initiative was on a knife-edge for a while, but ultimately the gamble proved a success. Many other major goods manufacturers were able to follow P&G’s lead to reap the benefits of greater profits of doing distribution for themselves, as well as the incremental benefits of having their own salespeople and merchandisers regularly visiting shops and building relationships with the shop owners. The original reason for P&G considering the initiative – greater predictability in orders and shipments – paled into insignificance with the benefits that influence over the point of sale were to bring.

A battle that had always been biased in favour of retailers because of their ability to influence the consumer and the middlemen for control of the route to market now began to swing inexorably in favour of the producer. This switch prompted innovation within the retail sector to fight back against the increasing power of the manufacturers.

An early appearance by private label

The Atlantic and Pacific Tea Company (A&P) opened their first store in 1859, founded on the principle of importing tea direct from China and Japan, thus cutting out the middleman and passing on the extra profits in the form of lower prices. This was an early example of the retailer realising that, having the key position of being in direct contact with the shopper, they had the potential to cut out one or even both of the other players in the value chain.

Within six years, they had expanded to 25 stores and decided that the same principle could be extended to other grocery items, which,
for the most part, they executed by selling under a private label strategy. By 1930, A&P had become the largest retailer in the world, selling over a billion dollars’ worth of goods a year through their 15,700 stores.\(^8\) While they did sell the most popular brands from manufacturers, slightly over half of the 300 products they sold were under the A&P private label – a ratio that a modern retailer would see today as a reasonable target to aim for. As part of their strategy, A&P had vertically integrated back into producing their private label products, thus also cutting out the manufacturer from the equation. They owned and operated coffee roasting plants, bakeries, food factories, cheese warehouses and salmon canneries, making them, at their peak, one of the world’s largest FMCG manufacturers.

However, within the strength and success of the A&P retail model was the Trojan horse that would lead to it being eclipsed: manufacturer brands.

**The rise of the brand retailer**

The Piggly Wiggly chain pioneered the supermarket concept in terms of layout and self-service in the 1920s. But it wasn’t until 1930, when Michael J. Cullen, an imaginative retailer then working for Kroger, came up with the idea to have a supermarket stocked with nothing but well-known manufacturers’ brands sold at wafer-thin margins, an idea he enthusiastically proposed to Kroger’s senior management:

> Can you imagine how the public would respond to a store of this kind? To think of it – a man selling 300 (branded) items at cost and another 200 at 5% above cost – nobody in the world ever did this before . . . People would break down the doors to get in, it would be a riot. I would have to call out the police and let the public in so many at a time.\(^9\)

Kroger, who had a large private label business themselves, failed to see the potential of Cullen’s idea of only stocking 1000 branded
items and selling half of them at cost or marginally above: they thought him a lunatic. But Cullen realised that, as manufacturer brands were by then being advertised nationally via the powerful medium of radio, they would do all of the selling for him. So he left to develop the idea in his new grocery chain, the King Kullen Grocery Company. His prices on the most popular 500 lines substantially undercut other retailers, leaving A&P and Kroger, with all of their vast upstream costs associated with the private label, high and dry. The core of Cullen’s idea has endured to this day: most major retailers today will have 400–500 lines they sell at or below cost.

Cullen was doubly fortunate in the timing of his idea: not only was radio advertising, the most powerful medium the world had yet seen, selling his stock for him, courtesy of the manufacturers’ marketing budgets but rapidly increasing car penetration meant shoppers would gladly drive past their local A&P to reach his store and buy their favourite brands for less. He thus was able to overcome the two biggest challenges to succeeding in retail: attracting shoppers and the limitations of location. His formula was widely copied immediately. Independent store owners who could not hope to match the new grocery chains’ prices and private label specialists who were not selling the advertised brands people wanted to buy both stood no chance and began a long, inexorable decline.

The triumph of branded manufacturers

Cullen had created a concept that was successful in horizontal competition with other retailers, but he had sown the seeds of retailers losing the vertical battle for profits to the manufacturer. He had unwittingly created the situation where power, consumer influence and consequently the bulk of the profits increasingly rested with the branded manufacturers. As manufacturers and retailers got accustomed to retailers earning uniformly thin margins, pricing control also fell into
the hands of the brand owners via their list pricing, which translated into a very predictable on-shelf price.

Broadcast media for advertisers provided a perfect marriage of the economies associated with scale of production and communication – for the first time advertisers could talk to millions of customers at once, and fill the retailers’ shelves with thousands of products to satisfy their needs. The brand message delivered repeatedly had a mesmerising effect on consumers, and on corporate bottom lines. By 1965, Coca-Cola were selling an annual average of 260 drinks per person in America, Camel dominated with 33% market share and Pampers were raking in $14.4 million. The manufacturers seemed unstoppable.

The dazzling power of mass media and the allure of branded products in self-service stores meant that there was no real need for someone in the value chain to engage the consumer and listen to their individual needs: everyone wanted to buy the big brands. This love affair with brands negated the one real source of advantage previously held by retailers: direct contact with their shoppers.

**Retailers battle for the scraps**

By the 1960s, retailers found themselves hopelessly outgunned by the branded manufacturers, who dictated the terms on what they should stock, how and where it should be displayed, at what price, how much they would be allowed to order and how much of the selling price they could keep as profit. As the branded manufacturers became financial goliaths with easy access to capital, retailers, especially in Europe, remained predominantly family businesses reluctant or unable to borrow substantial funds to fuel growth, thus widening further the scale mismatch between manufacturers and retailers. Rendered almost powerless, retailers disengaged from the vertical value chain battle for transaction profits and focused almost entirely on the horizontal battle with other retailers for market share, primarily in a race to be seen as the cheapest place to buy well-known brands.
Retailers thus embarked on a discounter strategy by developing large sites and maximising efficiency, building high volume with low prices and then negotiating appropriate discounts from manufacturers, investing in technology and reducing logistics costs. This strategy has worked across the globe, from Coles in Australia to Carrefour in Brazil and Loblaws in Canada, and across the sectors (e.g. food, electrical appliances, toys, pet care), but left most of the power and profits with the brand manufacturers.

The retailers’ discounter strategy is most successful and appropriate when there is share to be taken from smaller, less efficient competitors. Sam Walton’s US Wal-Mart chain grew dramatically through the 1970s and 1980s by being the epitome of this model. He placed many of his new stores in small towns where they could all but close down an entire Main Street of specialist shops.

This development of large, efficient retailers was not initially a threat to manufacturers. In fact, the efficient stores were better customers, shifting greater volumes per location and often increasing overall consumption. The better deals given by the manufacturers were justified by their savings servicing the high-volume discounter, compared to the costs of servicing a multitude of smaller, less tightly managed stores.

Discounters’ profits came and still come from buying competitively while handling financial operations, logistics and property business more astutely than other retailers can. The high-volume, low-operating-cost model allowed them to offer lower prices and more choice, while maintaining acceptable service levels; their goal was to move a lot of product and make small percentage profits on high volumes, which improves efficiency and gives them the power to negotiate with manufacturers.

Manufacturers encouraged and favoured these ‘model traders’ with discounts, advantageous delivery arrangements and information technology link-ups. Most large manufacturers introduced systems where their computers were linked directly with the stock controlling computers in their clients’ stores. Stock sold was reordered automatically as
the goods moved out of the shop. Inventories could be minimised and administration reduced. The independents stood no chance. By the end of the 1950s, grocery chain stores had accounted for 50% of US food sales, which then rose steadily to 80% by the early 1990s; today, US grocery chain stores account for 89.6% of all food sales. Elsewhere, Russia went from a situation in 1990 of virtually all trade being through small, grossly inefficient shops to 30% being through modern chain supermarkets within the space of 20 years.

The discounter strategy was unstoppable when there exist weaker competitors to crush, and the better discounters did very well because their sales were always increasing. Consumer demand for discount retailers was greater than supply, with towns begging retailers to open big-box stores in their vicinity. The competition between the discounters centred on being the first to develop new sites servicing these consumers who were waiting to benefit from the retail revolution.

The same situation exists today in the rapidly expanding emerging markets. The Russian retail food market, worth $239 billion in 2011, is growing at 13% a year, and yet the leading 10 retailers are growing at between 30 and 40% as they build upon their current modest 11% share. In India, organised chain retailers account for only 7% of the $435 billion market, a share forecast to rise to 20% by 2020. The discounter model is unstoppable in fragmented, unorganised markets.

The end of the golden age for discounters

But all good things must come to an end. Once there is supermarket or hypermarket saturation, profitable growth via the discounter strategy becomes almost impossible. New sites have to be placed not in virgin discounter territory but in areas already served by other discounters. In saturated markets, such as Germany, this led to the emergence of the hard discounter as being a new way to compete.

Discounters have powerful differential advantages compared to traditional small stores, but as protection from each other all they have
is location. As long as they stay apart, and the consumer isn’t too mobile, they are differentiated by the cost involved in travelling to competitive stores. As the accessibility of transport increases, the advantage of location decreases. Even in countries like Australia, where a relatively small population is distributed across a continent, location is no longer a meaningful advantage. Coles and Woolworths compete toe to toe for the vast majority of grocery dollars spent in every major town and city. Retail competitors face each other with similar offerings of similar stores selling similar products at similar prices. Since there are no new supermarket shoppers, growth implies taking share away from competitive stores. The golden age of discount retailing, where developing a store in a well-chosen location was a formula for printing money, has come to an end.

The shift to selling orientation

The fastest route to maintain sales volume in such a competitive retail environment is a transition to selling, or ‘hustle’, strategies. *Hustling* means holding the basic product offering (store, range, service) constant while increasing the selling pressure. This involves price cutting, promotions, special ‘discount’ days, dump bins, checkout displays, piles of stock on the main floor with special offer etc., etc.

These techniques do not create greater value, except in impulse-buy categories such as soft drinks and confectionery, because most of them are easy to copy. The simplest way to increase sales volume is by dropping your prices, and the easiest way for competitors to recover their lost sales volume is by copying your strategy and dropping their prices even lower. Hence the price wars of the 1980s, which reduced retailers’ margins to the bone. Hustle techniques almost always escalate beyond their break-even point: the value of the total market does not increase enough, if at all, to repay the combined investments of the participants.
Competing retailers thus hope to outdo each other in this situation by becoming more sophisticated. By analysing their promotions better than the competition does, they believe they can adjust their offers more efficiently to create greater profits. This is true for some competitors at some points, but it can’t sustain the FMCG retail industry over time. As the techniques for analysing the effects and costs diffuse to the slower retailers, the outcome is similar layouts and promotions across the board.

At first glance the consumer would seem to benefit from such a competitive climate. However, the resulting oversupply of retail outlets is inefficient: supermarkets working at below-optimal capacity have higher fixed costs. They also have less money to invest in efficient technology. Selling strategies also tend to breed other, more complicated, inefficiencies.

**Inefficiencies of the selling orientation**

Selling strategies have detrimental effects on logistics. For example, they encourage forward buying. This practice is a result of regular and significant promotions, which are supposedly forced on manufacturers by the price-obsessed retailers. Once an expectation of promotions is established, retailers are motivated to buy as much of their turnover as possible during promotions, often to be resold later at regular prices, this being known as the *bull-whip effect*.

In simple terms, the trade start buying the product on discount to hold in stock for future sale at a higher margin rather than sell immediately. They make money by taking advantage of contradicting discounts and promotional schedules and then selling the product for a higher price at a later date. This is not uncommon. If a manufacturer offers promotional prices every other month, a retailer will forward buy five weeks’ supply at the end of each promotional month. It is not unknown for a retailer to buy a year’s supply ahead of a major price