



Canada

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CANADIAN Grocery Retail Guide

SECTION 5

Sales Strategies for
the Grocery Industry
by Market Channel
or Segment



Saskatchewan
GROCERY RETAIL & FOODSERVICE
VALUE CHAIN INITIATIVE

*Adapting to Consumers Demands and
Capturing New Market Opportunities*

Section 5 will focus on assisting the producer and food processor in developing the information necessary to create a sales strategy for their products. The content will assist the producer or processor in identifying the demographics and psychographics of the target consumer for their product; determine where these consumers shop for product; and identify retailers that are potential customers to sell their products.



The Target Consumer

This section assumes that the product development process has been completed, and that during the course of the development process considerable attention was given to the target consumer for the product and to the target channel of distribution. In preparing the product sales strategy a more detailed description of the targeted consumer and retailer is usually required. This information is invaluable in making the decision as to the allocation of often limited human and financial resources to the “push” onto the shelf and “pull” of the product off the shelf. To paraphrase an old marketing axiom, “I know 50% of my marketing does not work; I just don’t know which 50%”.

The following is designed to help a company target the right consumers and ultimately find the

right retailer and channels of distribution for the product. The first step in this process is to determine the target consumer for the product.

Who are your products’ target consumer?

Demographic and psychographic profiles are two useful pieces of information that can help in the consumer targeting. The process can be as simple or as complex as budgets and internal or external expertise permits. The first step is to sit down and complete a description of the target consumer group or groups. This description is important in that it will test the anecdotal assumptions that a company may or may not have about the end user for the product.

Demographic information describes the age, gender, income level, family size, ethnic background, household location, education level, and household spending habits of the target consumers for a product. It is very useful to be fairly flexible at the outset of this exercise and frequently question the assumptions behind your choice of a specific target group or groups. Remember one of the primary axioms of marketing – “you are not the target group”.

Psychographic information identifies the lifestyle, attitudes, beliefs, values, personality, and product usage among other things. Psychographic information usually cuts across age groups, gender, income levels, education levels and other demographic information. For example, concerns about health and wellness cut across family size, income, education and other demographics. Concerns about the environment, interest in local food, the need for convenience, the desire for a rich tasting food and other food trends will cut across many demographic lines. The psychographic profile of consumers who may have an interest in

purchasing a product or are currently purchasing a similar or competitive product has become a key component in the development of marketing plans for many food products.

Combined with demographic information, the psychographic information can help a company develop a profile of target consumers. The profile will become a key tool in determining which stores to approach to carry a product or line of products.

Many food products have a broad assortment of target consumers. For example, pasta products appeal to a wide range of consumers from households to singles, from fixed income to well off, from children to retirees, from those concerned about health to those who are looking for convenience or comfort food. Developing a marketing plan that appeals to a diverse group of consumers is the challenge when relying exclusively on demographics. However, by developing a psychographic profile that can be used in conjunction with a demographic profile, the picture of target consumers becomes more transparent.

Psychographic information will impact packaging (from single serve, empty nesters to family size), package copy, distribution, marketing, and promotion. Package material, advertising, website design and product positioning in the market will all be developed with the target consumer in mind. The key to this approach is to determine the one, two, or even three benefits that will appeal to the broadest range of consumers.

Why are consumers going to purchase your product?

In order to answer this question a company must first understand why consumers are purchasing

like or similar products to their own and then to understand what makes their product different from other products. It is these points of “differentiation” that will often determine if a product succeeds or fails in the market.

Points of product differentiation for a food product include: taste, ingredients, portion size, uniqueness, colour, packaging, ease of use, social marketing, convenience, healthy-for-you, local, ethnic, price point, environmentally friendly, certifications and approvals, etc. Each product should have no more than three points of differentiation listed on the package or used in marketing materials. Usually most consumers become skeptical or confused when a product features an extensive list of differentiation points.

The points of differentiation should complement the demographic and psychographic profiles of the target consumers. It is always useful to remember that consumers purchase benefits - not products.

How to determine what perceived benefits are consumers looking for in a product that is similar or substitutable?

One method to determine the perceived benefits that consumers are looking for in a product is to stand in a food store, with the store owners or managers permission, and talk to them. This





form of an intercept survey is very focused in that the company can approach only those customers that are purchasing a product that is similar and substitutable to the one that they are preparing to launch. Consumers can be asked about the perceived benefits of the product that they are purchasing, price points, packaging, flavour profile etc. It is advisable not to undertake this form of research during peak shopping hours.

It is recommended that this type of research or similar research that produces the same type of results be undertaken in the early stages of product development. It is also useful to reconfirm the perceived benefits of new or even existing product with various consumer demographic groups. In many cases it may be discovered that a new product has perceived benefits that were not initially considered to be important to consumers but turn out to resonate with a number of consumers.

Where do they shop and why?

Once the preliminary psychograph and demographic profile of a target consumer

has been determined then it is important to determine in which stores they purchase products that are similar or substitutable to the new or existing product. Spending time, with the permission of the store owner or manager, in an assortment of stores is both relatively inexpensive and extremely beneficial. Do not be reluctant to approach people and tell them about your company's product and why you are approaching them. Most people are very courteous and will answer your questions. But keep it brief.

Who are the potential retail partners and their locations?

Once it has been established which type or category of stores can potentially become customers for a product it will be necessary to start the search for these stores. The internet is an invaluable tool for finding channels of distribution.

Often companies will list organizations such as Distribution Canada Inc., Canadian Federation of Independent Grocers, and the Canadian Health Food Association.

It is recommended that a list by store type and location of the target stores be developed. The list can be as brief or as detailed as felt necessary, and the rule of thumb is to develop several options in different channels of distribution. The options may range from health food stores to conventional, from grocery to specialty, from independents to chains, from convenience to drug stores.

Location, Location, Location

It is important to obtain information on the layout of the store. Cell phone pictures are very useful as they will assist you in determining where your product belongs in the store. Retail is all about "real estate", and like real estate it

is all about location in the store. You may wish to have your product positioned right beside the competition or in another part of the store. It is not uncommon to position a product in several locations throughout the store. You will be asked where the product belongs in the store.

What is the target retailer's trade profile? (Discounter – Upper End)

Distribution profile is very important. If you launch in a discount store then you are probably going to be restricted to those types of stores. If you launch in a convenience store then you may not be able to get distribution through an upper end store. The rule of thumb is that it is always easy to move down the distribution chain but very difficult to move up once you are in one class of trade.

The temptation is to take the first order that comes along. It is usually more prudent to predetermine the channel of distribution where you wish to sell the product. It is also important to remember that discount retailers want discount prices from their vendors



Finding the Right Retailer

Once the channel of distribution and type of retailer has been determined it is necessary to begin the process of actually finding retailers who will carry the product.

Launching a product

into the wrong retail segment can not only lead to reduced sales at retail but can prevent the product from being purchased by retailers in another market segment. The following is criteria that can be used in finding and approaching retailers who could purchase your products.



Criteria for finding the right retailer and the right fit for your product

Is the retailers trade profile compatible with the product?

In effect does the retailer's price point profile and image match the targeted retail price point for your

product? If the average retail in a specific store for your type of product is \$4.99 and your target retail is \$5.99 then the product will probably not fit into the assortment.

Does the store carry your product category?

Most retailers will not introduce a new product into their store unless they already have other products in that category. It is very difficult to introduce a new product category into a store without some sort of inducement such as a "guaranteed sale". For example, if you sell rhubarb jam and the store does not carry any jam products then the introduction of your product will be difficult without an inducement.

Is there a gap or can a gap be created in the product assortment?

A gap analysis is not as complicated as it sounds. What you want to do is to list all the products that a store carries in your product category and determine if there is an opportunity for your product. The opportunity may be by flavour, price point or type of product. For example, if you are selling rhubarb jam, the store may not carry rhubarb jam so the gap analysis would indicate an opportunity for your product.

What product could your product replace in the assortment?

Often the “shelf” is crowded and in order to create a space an existing product must be removed. Part of your analysis is to determine which product could be replaced by your product. For example, if you are selling rhubarb jam and the retailer’s shelf has 3 types of strawberry jam then by removing 1 of the strawberry jams a space is created. This form of analysis can be crucial in a presentation to a retailer.

Does your product complement the assortment?

Your product should complement the retailer’s product assortment by making the assortment more attractive to the consumer. If you are selling rhubarb jam and the retailer has other jams but no rhubarb jam then your product compliments the assortment by offering consumers a new choice in product.

Do the product benefits meet a consumer food trend?

Retailers are very cognoscente of trends in the food industry. Your product should be positioned in one or more of these trends. For example, rhubarb jam could be positioned as healthy, indulgent and local.

Can the product increase profitability to the category?

Retailers do not like to “trade dollars” nor are they prepared to risk margin dollars by replacing a new and untried product with an established product. Your product must increase sales or increase the total gross margin in the category. You must demonstrate to the retailer how your product will increase store profits. Retailers will often refer to “bringing profitability back to the category.”



Does the product fit with any specific store/retailer initiatives? (Green/Convenient/Premium)

Many retailers implement initiatives that they feel will be beneficial to themselves or to the community at large. Walmart has a packaging initiative to reduce packaging materials by 50%; Loblaw stores in Eastern Canada started the no plastic bag initiative to help the environment. Sobeys has a green initiative. It is always very beneficial if your product fits into one of the retailer’s initiatives.

Could the product/range attract new customers (create footsteps) to the category or the store?

Retailer’s net margins are often in the 2%-3% range. They rely on volume to drive profits and volume comes from repeat purchases by new and existing customers. A product that will create consumer “footsteps” is of immediate interest to the retailer. Often retailers will ask for exclusivity on a new product for a period of time in order to create new footsteps. Word of mouth on new products will often drive new customers into a retailer.



Once the process of determining the product sales strategy has been completed, the next step will be to develop presentations geared to the retailers, brokers and distributors that are in that market segment or service that segment.

Developing A Presentation for Retailers

In all segments of the retail food channel there exist a common set of elements that should be included in developing a presentation. The following will discuss and identify those elements that should be incorporated into both the first contact and follow-up presentation to food retailers.

Common elements in the approach to all retailers

Product Category (Fresh, Frozen, Grocery, Deli)

Retailers will want to know where the product is to be positioned in the store. Is it a grocery item, does it go into the health set, is it fresh (requiring refrigeration), frozen, is it a deli item, is it a healthy-for-you item, is it organic, natural, or baked? In major retailers, you will have to search out the appropriate buyer for each category.



Product Position (Health/Convenience/Indulgent/Local)

The retailer will want to know the product position and how it fits into food trends in the industry. Is the product positioned as a healthy, indulgent, convenient or social product? Is it local, ethnic, or is it an environmentally friendly product?

Product Points of Clear Differentiation

One of the most critical elements in developing a presentation are clear points of differentiation for the product. Usually three points of differentiation are required to separate your product from competitors.

Price Point (Opening/Mid/High/Guaranteed/Protected)

Retailers will require information on suggested retail price points. The price points will reflect the positioning of the product. The discussion will often focus around the opening price point and is it an every day low price (edlp) product or is it mid or high? Is the price guaranteed or protected in the market?

Certification (Organic/Kosher/Fair Trade)

The certifications or classifications of the product are important for positioning the product in the market. Organic, Kosher, Halal, Fair Trade and Health Check are common certifications that can give credibility to a product. Retailers are very interested in these certifications as they can command a premium at retail.

Company Information and Profile

Retailers want to know about your company. How long your company has been in business, expertise in the industry, management expertise and trade knowledge. In effect, what is your company story?

Distribution (Majors/Box/Discounter/Independents)

Your product's distribution profile is very important to a retailer. If your plan is to sell to Big Box stores then the independent markets may not be overly interested in your product. If you have distribution through upper end stores then mid-range stores would probably be interested in your product.

Exclusivity (Area/Channel/Region/Sector)

Retailers will request information on exclusivity. Often it is asked for a channel or a region for a specific period of time. Be prepared for the question and have a strategy for exclusivity if asked. You may give exclusivity to a retailer in an area in trade for a commitment to a specific volume of sales over a limited period of time.

Service (Weekly/Daily/DSD/Warehouse/In-store)

Retailers will want to know how you plan on servicing their store or stores. Will they be serviced directly "direct store delivery" (DSD), who is going to deliver the products (distributor, company truck, courier, bus) and how often? Will deliveries be twice a week, once a month or daily? How are orders to be placed, and with who? All the details must be ready to be presented to a retailer.

Purchase Requirements (Cases/Skids/Singles)

Purchase minimums are a key element in working with retailers. Many products are sold by the case and often small retailers will ask their supplier to "break cases". Breaking a case is costly but it can be an important tool for building distribution in smaller retailers. Remember that every time a product is touched, either a case or a single unit, there is a cost. Assume that it will cost \$0.35 - \$0.50 every time a case or product is touched.



Program Fees

Retailers will want to know if you have funds for advertising, promotion, in-store taste testing, or free fills. Retail programs are discussed in another section.

Production (Co-Pack/O&O/QA/HACCP/Import/Local)

Retailers will require information on where the product is produced and the type of plant that it is produced in. Is the plant HACCP, ISO, Kosher, Organic, AIB certified? Is the product made in a co-pack facility or is made in your own plant? Does the plant have a Quality Assurance program and does the company have a Product Recall procedure in place? Does the company keep track of the product by lot numbers (for recall purposes) or by purchase order and lot number? These are but some of the questions that may come up in a presentation.

Developing Presentations for Independents and Majors

There are also unique elements that are specific to each market segment that must be taken into consideration in developing a presentation. Identifying and being aware of these specific elements while developing a presentation will help eliminate any potential negatives to the purchasing of the product.

Independent food retailers and major food retailers look for different things in a presentation.

While there are many common elements in the presentation there are also clear areas of focus in each channel.

As the following suggests the information for a presentation to both independents and majors will probably have a different focus. For example, an independent is often more concerned that the product is not being distributed to a box retailer in the immediate area than a major is concerned that the product is being sold to independents. Assuming that the independents will not discount the product on a regular basis and embarrass the major retailer.

Independents are often concerned about minimum purchases and service levels. Majors are not concerned about minimum purchases and know that if they are not serviced properly they will delist the vendor.

Independents can usually make excellent use of point of sale material, while majors are very restricted in the type of point of sale material permitted in the store. Independents may request a free fill to start a program with a vendor while majors may request a free fill plus other programs and listing fees.

Another example of the difference in requirements is that major chains will require that all products be listed with ECC net while independents usually do not require an ECC net listing. Majors will usually require information on production and the ability to supply; independents will assume that their orders will be filled in a timely manner.

The following are some of the main elements that should be considered in developing a presentation for either an independent or a major. Note the different focus on each presentation. A presentation that may do very well for an independent may not meet the needs of a regional chain or major chain. It is suggested that once the common elements are developed for

a presentation then you can fine tune those elements for each class of trade.

Independents/Specialty Segment

1. Distribution (is it being sold to majors or independents)
2. Exclusivity (for an area or for a channel in an area)
3. Certification (organic, natural, kosher, local)
4. Competitive price point (margins – usually higher than majors due to slower turns)
5. Minimum purchase requirements (units or case lots)
6. Service (weekly, monthly)
7. Point of sale material

National Majors and Regional Chain Segment

1. Distribution (other majors or box stores; independents not a concern)
2. Price points (margin plan, guaranteed profit plan)
3. Exclusivity (by channel)
4. Program Fees (listing, advertising, O&A etc.)
5. Guaranteed Sale Program
6. Service level (DSD, distributor, broker)
7. Production (co-pack, owned facility, country of origin)
8. ECC Net Listing
9. Certification (HACCP, Organic, Kosher, Fair Trade)



Canada

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The Agriculture Council of Saskatchewan (ACS) Inc. has developed this electronic guide for the Canadian Grocery Retail Industry as part of its continuing efforts to support the agriculture and agri-food industry and develop the capacity and tools for food growers and processors to enter the Canadian Grocery Retail Industry.

The purpose of the guide is to provide food growers and processors with a better understanding of the Grocery Retail Industry and how to tap into business opportunities within it. ACS has engaged Ackerman & Associates, consultants to the Grocery Retail Industry, to help create this powerful reference tool. Ackerman & Associates is an alliance of senior consultants focusing on business strategy support – research, value chain design and implementation – for the Grocery Retail Industry.

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