



RETAILING WITH THE EXPERTS

In this issue of *The Australian Retailer*, we speak to Nielsen's executive director of retailer services – Pacific, Kosta Conomos, to find out what makes the retail industry tick. And it's not all bad news.

Speak to Kosta Conomos for five minutes and two things become clear. One, he knows his facts. Two, he loves retail.

Born into the world of supermarkets, Kosta followed his father's footsteps into Woolworths and spent more than 12 years with the supermarket giant in roles ranging from store operations to merchandising, marketing and category management.

For the past 10 years, however, Kosta has combined his love of the industry with his passion for retail insights at global information and measurement company, Nielsen.

In this role he has travelled around the globe researching trends and performances of every retail industry imaginable.

So when he says there are many things that Australia's independent retailers should be positive about, it's good advice to listen.

***The Australian Retailer*: What major trends are you noticing amongst the shopping habits of supermarket shoppers?**

Kosta: The main thing at the moment, which would probably come as no surprise, is that we're dealing with a much more frugal, cautious shopper. So whilst most of

our leading economic indicators are quite favourable, there is a declining consumer confidence. Nielsen does a quarterly consumer confidence survey globally and very recently we did an interim report and we've actually seen the confidence in the Australian market drop to GFC levels. As a result, people are taking actions to save more and better manage the household budget. They're more likely to shop across more stores to fulfill their requirements based on which stores offer the best value proposition for that particular shopping mission.

Based on your research, what do shoppers really want from a supermarket?

If you look across the 24 attributes that we rate shopper satisfaction with there are five key areas that in the supermarket sector are almost equally important, which all fit within the 'service' banner. Those include: a place where it's easy to find everything you want quickly; always having what you want in stock; having a pleasant store environment to shop in; high-quality fresh food; and spaciousness.

Then as you go down the pecking order

you get into things such as wide selection, quality product, value for money and store accessibility.

That hasn't changed a lot in the past four or five years. In fact, a lot of the things that sit within this ranking are almost becoming 'hygiene' factors. That is, people expect your checkouts to be efficient, they expect you to have a good range of fruit and veg, and that you're going to have good parking and opening hours. So where we're starting to see more emphasis placed by the retailers is the quality of fresh food. It becomes more about the quality of the offer, not just the provision of the offer.

You recently released Nielsen's 2011 ShopperTrends Report. What did that reveal for the supermarket and convenience retailing sectors?

If you look across the past 10 years the supermarket sector is relatively stable. We see very little volatility primarily because they represent the majority of household spend in terms of food expenditure. What we do see below the surface with all the other different trade channels is a lot more volatility. Convenience stores, for example, would be very familiar with volatility, primarily based on fuel prices. As fuel goes up, we see convenience store sales or growth decline.

That's been the case forever.

What has changed, however, in the past 18 months, is that with the growth of retailers such as Costco and Aldi and Fresh Food specialists and obviously Coles being much more resurgent, you're seeing the split of share between the retailers starting to change. The slices of the pie are different if you like.

And obviously within convenience you're seeing consolidation going on as well. You've got Gull Petroleum in WA merging with Ausfuels and you've seen 7-Eleven acquire Mobil, so I think people are trying to drive their own economies of scale through size, which obviously gives them a stronger procurement position.

What implication do you think the expansion of Costco in Australia will have on the grocery industry?

Currently we estimate that Costco is less than 1 per cent of the overall grocery market nationally but we estimate within the next five-to-seven years they'll be close to 3.5 to 4 per cent of the grocery industry. Obviously that's highly dependent on the approval of new sites and the location of those stores but Costco probably is not going to have as big an impact as people would have expected, primarily because it's not a strict offering that is just competing with supermarkets or convenience shoppers. Costco have a strong presence in servicing the needs of the food service sector, which is distinct from their major supermarket competitors.

How are private-label products fairing in the industry?

We track private label every four weeks and it's currently sitting just under 25 per cent of grocery sales in value terms and that has grown slightly over 1 per cent versus the same period last year.

I won't say the growth of private label is a good or a bad thing, it's just part of the competitive set that a branded manufacturer has to contend with. The reality is that wherever you look around the world in all the markets that we operate in, strong brands survive.

Have you done any research on the price discounts at the two major stores? For example, \$1/litre of milk.

It has worked well in some categories and not in others. Ultimately what we have seen is that to some extent it has driven more foot traffic initially, but I think once customers


realise that it's actually available every day then people pretty much go back to their normal purchasing behaviour. It depends on the category as well and whether it's a commodity category or an expandable consumption category, for example, just because toilet paper is cheaper doesn't mean you're buying more.

What are the international trends that Australian supermarket and convenience retailers can learn from?

Australia's supermarket industry is behind the UK and the US in some respects, but retailers today are beginning to utilise their loyalty programs and consumer panel data to better understand the needs of their diverse customer groups and do more specific targeting and ranging to meet their requirements, which gives you that incremental return and also a point of difference. If you look at Target in the US, for example, they actually create a custom catalogue based on their customer's purchase behaviour.

As part of that consumer targeting is the use of digital and social media. Six months ago in our *Retail Barometer Survey* we asked our retailers and suppliers whether they were proactively analysing social media data and less than half (about 44 per cent) said they were. We just completed a new survey and that number has now gone to 80 per cent so there's been a massive jump in a relatively short period of time with retailers monitoring that data.

With the current retail environment, what is your advice to independent retailers in how to stay successful during the tough times?

1. Invest the time to talk to your customers. They're your bread and butter. Understanding more about what makes your customers tick is going to continue to build your relationship with them so you can better service their needs. It's just customer service 101. Sometimes when there are external pressures it's easy to lose focus of those who pay the bills.
2. When you're investing in talking to your customers, it is critical to feed that information back to your buying group. A number of other stores might have very similar situations to you so you realise greater economies of scale in meeting those needs as a broader group as opposed to just one store. 

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