

THE WHEEL OF RETAILING KEEPS SPINNING:  
SUPERMARKETS CONTINUE TO (R)EVOLVE

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Abstract

This paper provides support for the "Wheel of Retailing" concept in the field of grocery (supermarket) retailing. Past and current trends are described. Because of changes in so many areas of the supermarket industry, "capsule" summaries are provided for each. However, the paper is heavily documented and provides the reader with sources for further investigation.

Introduction The theory of the "Wheel of Retailing" is still alive and well. This paper provides some evidence that there is a continuing evolution (or revolution) in the retailing field to support the "retailing wheel" concept. A major example in our economy is the changes which have taken place in the retail grocery market. Supermarkets, in particular, have gone through many stages of development and re-development. They experience "everyday" consumer-retailer contacts and are a primary force in the retailing industry. A preliminary study by Patton and DeLozier suggests that supermarkets are following the traditional "Wheel of Retailing" concept. This paper updates and greatly expands their work.<sup>1</sup>

Because of space limitations, the authors provide the reader with "capsulized" trends within the multi-faceted business of supermarket retailing. However, the reader may further investigate these trends by inspecting the bibliography which the authors will furnish, on request.

Warehouse Stores The warehouse store concept is currently on an upswing. The store which has recently gotten the most attention is Cub Foods in Minnesota, owned by Super Valu. Its first unit opened in early 1982. Along with its expansion are other "me-too" stores which are copying its early success. One author at Progressive Grocer believes that "this is the hottest development since Clarence Saunders came up with self-service."<sup>2</sup> The harshest critics of these stores predict a maximum of 500 warehouse stores across the country. The optimists predict 2000.<sup>3</sup> Super Valu states that one Cub market is equal to ten conventional supermarkets,<sup>4</sup> reminiscent of Safeway's prediction, about 30 years ago, that the new 1950 model store should be equal to three of the previous 1940 models.<sup>5</sup>

These stores look like grocery warehouses with wide aisles and high ceilings. Extra merchandise is stocked above the customer's eye level, and brought down, as needed, with a fork lift, similar to the idea used by Levitz Furniture. This practice reassures customers that there is plenty of back-up stock, especially when the product is "on special". This technique, combining warehouse with selling floor, also permits the operator to purchase large quantities of discounted merchandise, feature a special price for longer periods of time than competitors normally do, and become the only store in the area which continues to feature attractive prices on the item(s).<sup>6</sup>

Turnover is so rapid that a few operators claim that customers purchase the merchandise before they have to pay their suppliers. Studies of the trading areas for "new" warehouse stores show that they have approximately three times the area of conven-

tional markets.<sup>7</sup>

At one stage in the Wheel of Retailing, many products were delivered directly to the store. Safeway led a group which protested this practice, and by the 1970s, most chains relied largely on their warehouse for products. Today's "new" warehouse store reverses the trend, and some of them are getting up to 30% of their merchandise direct from suppliers.<sup>8</sup> Their sheer size even permits truckload deliveries of produce, which a conventional supermarket could not, or would not, take. Yet the Cub stores supplement the "warehouse" look in dry groceries with a "full service" look in other parts of the store. A scratch bakery, delicatessen, cheese alcove, fresh meat section, and frozen foods, all using scanning labels, are provided.<sup>9</sup>

One can see why it is currently difficult to define a warehouse store. Whereas they began with low service levels and limited selection, today they are much larger and cautiously attempt to provide a choice of groceries as well as one-of-a-kind items. Since the dry grocery section yields such slim margins, these new stores have added specialty departments with normal margins. An expert in the field, Willard Bishop, summarizes the current trend: "The key to future growth will be for a warehouse store to continue to know when to add variety of service and when to avoid adding 'just another frill' to their evolving concept!"<sup>10</sup>

The largest supermarket company, Safeway, joined the ranks this past year with its version of the warehouse market in Arlington, Texas. The store has 3 distinct areas: groceries, non-foods, and service departments and pharmacy, where customers can shop only one section and get out fast.<sup>11</sup> An "all open front" to this unique store lets customers see how different it is from the "all closed front" Safeway opened across the country in the 1950s, which research determined was efficient to the operator but too drastic a change for the housewife.<sup>12</sup> These changes suggest that supermarket warehouse stores are evolving in this country, but with a different twist.

Generics Jewel Tea in Chicago, generally credited with establishing generics in this country only 5 years ago, thinks that they have passed their peak, but will stay and continue important in certain product groups. President Henson predicts an overall sales level of 1.5% for generics, although a 5% share in some product areas is possible.<sup>13</sup> It appears that generics in general have not really caught on and might have plateaued.

Country Store This concept, tried by Red Owl to bring back the nostalgic features of yesterday's grocery store, changed direction this past year. Their 7-Hi Country Stores in Minneapolis were remodeled to add a service pizza shop, made-to-order pies in 12 varieties, a salad bar, and bakery.<sup>14</sup> The bulk food concept, not unique to Red Owl, continues with special emphasis in a new Ralphs Los Angeles store, with huge signs from a warehouse-like ceiling proclaiming "Save Up to 40% on Bulk Foods".<sup>15</sup> One of the new Edwards food warehouses in Connecticut took a "giant step backwards" in the minds of some, by merchandising more than 200 items in barrels, to be bagged by customers, and priced

at two weighing stations. Observers reminded the young shoppers of today that this practice was common 50 years ago.<sup>16</sup> The Country Store concept was carried too far and is now beginning to provide more services.

Financial Services They have been extended to about 10% of all stores with a banking operations terminal, but the trend toward an array of financial services, which Kroger and others are experimenting with,<sup>17</sup> does not appear to have spread as fast as predicted during the past year. However, one store, Super John, in Minnesota, has added a full service bank under the same roof.<sup>18</sup> Therefore, this trend has not been fully established.

Gourmet Foods They continue their trend and are now stocked by 56% of all stores.<sup>19</sup> One observer calls this the "democratization of fine foods."<sup>20</sup> Safeway raised a few eyebrows last year with its two Bon Appetit stores in the San Francisco area. Now Shopwell has 12 Food Emporiums in New York City, and Grand Union has 59 Food Market stores in Westchester County, New York for a gourmet emphasis.<sup>21</sup> Giant Foods opened a "truly gourmet super store" appropriately called "Someplace Special" in the Washington, D.C. area.<sup>22</sup>

Gourmet has seen a gradual growth for some time, but today's typical store has a "packaged", almost entirely dry grocery section. The newer approaches add to this with an impressive array of service departments, such as scratch bakeries which give off a delightful aroma of cookies and croissants right from the oven, an expanded produce department to include exotic items like Belgian endive or kiwi fruit, service meat counters, service sea food counters with cauldrons of piping hot chowders, full service delis, fresh pasta sections which dry their multi-colored strands on racks, coffee and tea boutiques, wine departments, and gourmet cookware counters. They are far cries from the typical four-foot gondola marked "Gourmet Section" in many stores just a few years ago.<sup>23</sup>

The gourmet trend has extended especially to ethnic foods. Italian foods used to be limited to spaghetti and meatballs, but today many stores feature entrees, soups, and a wide variety of spaghetti sauces.<sup>24</sup> Gift baskets of gourmet foods, once found only at specialty stores, are one of the best selling items at Gelson's in Los Angeles.<sup>25</sup>

Bagging Bagging by customers still exists at Applebaum's and a few other chains, but this change of service from employee to customer received almost no notice in the supermarket literature of this past year. The fact that most stores continue to offer bagging service, despite its costs, indicates that they anticipate customer dissatisfaction if the service is shifted to them. The status of bagging should continue to be monitored.

Competition from Eating Places Supermarkets are increasingly aware of the growing competition from "eating-out" places. The trend in the latter's favor continued this year and is very pronounced if we go back 20 years. In 1960 food eaten at home took 16.0% of consumer disposable income. But by 1982 this figure has fallen to 11.7%.

How are supermarkets combatting this trend? In the past year, supermarkets have placed much more emphasis on carry-out foods. One of the hottest areas has been take-out pizza (made in the store, sold fresh, not frozen). Many stores have 3 or 4 varieties of ready-to-go pizzas for busy shoppers.

Other stores will make up custom pizzas while customers are shopping elsewhere in the store.<sup>27</sup>

A new trend is for supermarkets to offer almost as many salad ingredients as customers can find in a Wendy's or a Burger King right in the supermarket, in the produce department and displayed on a bed of crushed ice. Some markets price all varieties at a flat \$1.99 per pound.<sup>28</sup> While most stores feature only vegetables, Stop & Shop in Boston offers fruit that customers can combine in a salad of their choice.<sup>29</sup>

Restaurants of course are fighting back. Some Pizza Huts bought a Chevette for each unit and put up a sign proclaiming "We Now Deliver".<sup>30</sup> Other specialty restaurants stress take-home merchandise in addition to on-site consumption. Examples are "I Can't Believe It's Yogurt", a 16 unit chain which takes advantage of the strong yogurt trend this past year, and Winchell's Donut stores, which have added a new line of deli sandwiches, additional baked goods items, and even ice cream to encourage added take-home sales.<sup>31</sup>

Cart Theft A continuing problem is cart theft. Attempts to reduce this problem have been renewed, but a recent survey showed that the average supermarket loses 22 carts a year, or an additional cost of approximately \$1500.<sup>32</sup>

Parking Lots When Safeway first entered the New York City area in a big way, few stores had parking lots because of the expense. The Oakland, California chain learned that there was a continuous policing job to keep other cars out of their Manhattan parking lots.<sup>33</sup> This year Pathmark began construction on a 38,000 sqft. store in Chinatown, in lower Manhattan. The chain estimates that 300,000 shoppers reside within an 8 minute drive of this location. They are planning a 200 car parking lot, possibly the largest on the island.<sup>34</sup> Pathmark says the community is excited about the new store, but on a previous occasion a new McDonald's in upper Manhattan met with considerable community rejection, and the plans for the new restaurant were abandoned.<sup>35</sup>

Single Shoppers Population changes continue to affect supermarket retailing. Single person households now represent 23% of the total, up 64% in the past decade. One study finds this group more store and brand loyal than other groups, and spending more grocery dollars per capita (perhaps because they have less time to shop). Most food in stores is packaged for larger households, so the growing single shopper must be kept in mind. He or she is less apt to shop for bargains, so supermarket advertising directed to this group can put less emphasis on price and more on other features. The single shopper is also less likely to use coupons.<sup>36</sup>

Meat and Produce In the 1950s there was a general trend from service to self-service meats. But today there is a re-emphasis on meat as a cardinal attraction, especially where the reemergence of fresh meat sections has taken place.<sup>50</sup> Produce is almost as important a drawing card as meat to other supermarket operators. Not everyone has been as successful as the new Irvine Ranch Farmers Market in Los Angeles. They took their know-how from years of running roadside produce stands and put it to work in their store. Today sales have reached an unbelievable 35% of total store volume.<sup>51</sup>

Schnuck of St. Louis ended an experiment to sell produce by the pound instead of by the piece, after

so many customers complained,<sup>52</sup> although there appears to be no uniformity on this practice. Some stores stress special merchandise to boost produce sales. In addition to the Gelson's gift baskets, previously cited, some operators have done well with gift boxes of braided garlic.<sup>53</sup>

Bakery Operations They often stress the importance of local ethnic groups, since their consumption of bakery products seems to vary widely. For example, H.E.B. finds a real difference in their new in-store bakeries operating in south Texas, with about 95% Hispanic customers, and in east central Texas, where Czech and Polish groups are in the majority.<sup>54</sup> Some stores are putting bread in baskets, a custom widely used in Europe.<sup>55</sup> A prediction made in the 1960s that bakery sections would become entirely frozen seems to be premature.<sup>56</sup>

Labor On the labor front, there appear to be two distinct trends. Stores continue to try to reduce labor costs by shifting duties to customers, yet most new stores have added, quite successfully, departments with full service. But Super John's, in northern Minnesota, boasts that with limited service specialty departments, the store can still keep labor costs down to 1/2% of sales.<sup>57</sup> Secondly, there appears to be a trend toward non-union operations in a field where unions have long been dominant. One observer says that the demise of unionized Fed Mart was a good warning.<sup>58</sup>

Deli Departments Service delis are now found in 50% of all stores.<sup>59</sup> The deli trend continues but retailers are worrying more about product quality and sanitation.<sup>60</sup> Service delis are still lagging in the West, often a leader in most other supermarket trends, yet they are almost universal in the North Atlantic region.<sup>61</sup>

Dairy Section There has been a downward trend in dairy products consumption since 1977.<sup>62</sup> But a counter trend of increasing interest in nutrition has helped spur sales of some dairy products, especially yogurt and low-fat items.<sup>63</sup> A new blanching process helps keep milk fresh almost three times as long.

Services Offered Supermarkets continue to augment their income by offering services, as well as products, to customers. For rental are large coffee makers, carpet cleaners, and other infrequently used products. To keep children amused in the store, more supermarkets offer kiddie rides, videogames, but fewer seem to have children's theatres.<sup>64</sup>

Machines are also available to laminate customer's records, test their blood pressure, copy their letters and documents, and give them cash when a bank card is inserted. There is a growing market in video cassette rentals.<sup>65</sup> Still other stores are very successful in offering catering services.<sup>66</sup>

Advertising Price advertising in newspapers is the most widely used method supermarkets use today, as they have for many years. The preferred advertising day is still Wednesday.<sup>67</sup> One operator, King Mart in south Texas, recently switched from a major emphasis on price advertising in newspapers to TV "image" advertising, after a new agency found that customers in his market did not select stores because of price ads. They used these ads, the research showed, only to determine which items to buy after they had decided which store to shop.<sup>68</sup> Change may be in the wind!

Longer-Term Trends What are the trends in the new-

er departments that the supermarket industry has provided for the benefit of its customers? In the period from 1976 to 1982, the following trends are apparent:<sup>69</sup>

<u>Merchandise/Services</u>	<u>Trend</u>
Service Delis, Film Processing	Healthy Increase
Bake-off Bakery Departments, Sit Down Eating, Pharmacies	Good Increase
Scratch Bakeries, Catering	Only Gradual Increase
Garden Supplies	Modest Downward Trend
Florals	Steep Decline

And yet, in 1983, these specialty operations are found in half or more of all stores surveyed.<sup>70</sup>

<u>Merchandise</u>	<u>% of All Stores</u>
Vitamins	90%
Cosmetics	79
Gourmet Equipment Rental	56
Service Deli	50

Other merchandise which was found in less than half of the total number of stores were the following:

Nutrition and Health Fds.	49%
Service Meat	38
Film Processing	38
Video Games	37
Bake-off Bakery	30
Fresh Fish	17
Scratch Bakery	17
Catering	14
Banking Operations	10
Sit Down Eating	8
Pharmacies	7

Conclusion Conventional supermarkets became very impersonal in the 1960s and 1970s. Since the Wheel of Retailing keeps spinning, we are probably not surprised that there seems to be a strong trend toward personal attention in the 1980s. It is the consensus of operators surveyed that the conventional supermarket must play a different role in the future, and will perhaps be the most successful in smaller cities.<sup>71</sup>

Ahead, just next year, is the start of perhaps a new trend in this dynamic field, the hypermarche, heretofore found only in its pure form in Europe. The first full scale U.S. hypermarche is set for Cincinnati sometime in 1984.<sup>72</sup>

We can only repeat (and in this paper, hopefully support) that the Wheel of Retailing is not stagnant; it keeps spinning in the supermarket industry.

