

# LOOMING THREATS TO SUPERMARKET DELIS



By  
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**F**or the deli foodservice department in American supermarkets, 2017 stands to be the year when the proverbial irresistible force slams right against the proverbial immovable object.

On the one hand, we live in an age when the ease of online purchases threatens to be the straw that breaks the back of the conventional supermarket. Following decades of growth of supercenters and warehouse club stores, online retailing makes the center store seem increasingly untenable – a kind of black hole at the heart of traditional food retailing, gradually sucking life from the concept and leading brick-and-mortar stores to not merely emphasize fresh but to become a newer more upscale creation.

This newer upscale creation is represented by an amalgam of fresh foods and culinary technique, a hybrid between retail and restaurant... and all of this points to higher price points, larger fresh assortments and more service.

Yet, 2017 is also the year that Lidl will begin its rollout across America. Paired with the uber-growth of Aldi – America's fastest-growing food retailer – in 2016, Lidl and Aldi will be a one-two punch, causing the threat posed by the discount sector to dominate industry discussions.

In the UK, the market has hit a kind of psychological teetering point, where discount retailers have stopped being a special sector for people of a lower income or on a tight budget, but, instead, have become an integrated part of food shopping for customers of all types. The US Lidl stores, drawing on new store concepts the company has unveiled in the UK and Ireland, are very likely to make discount shopping par for the course for all shoppers.

The threat to deli departments at traditional supermarkets is two-fold. The first threat is the most obvious: Direct loss of sales, with packaged deli products sold through Lidl and Aldi, representing a loss in product sales to conventional supermarkets.

The second threat is more subtle: If shoppers reduce their frequency of visits to their neighborhood supermarket because they now visit a deep discount once or twice a month, that means a loss of all the impulse sales that would have been done had consumers been in their neighborhood supermarkets.

Where are these impulse sales greatest? Well, specifically, in the high service foodservice categories where hungry consumers get wowed by enticing displays, lots of food bars of different sorts and fantastic aromas and flavors of in-store cooking.

When you add in consumer defections due to Internet shopping, conventional supermarkets really do find themselves between a rock and a hard place.

After all, the focus on competing with discounters

has led to rationalizing SKUs, reducing spending on service and devoting more shelf space to private label grocery items. At the same time, the traditional approach to fighting Wal-Mart and similar operations has been to emphasize service, organic, local, etc. And every retailer now feels they need to offer some sort of online option, which may hold business, but even if successful, may not retain shopping trips.

Service departments – so absolutely vital to distinguish retailers from one another – are vulnerable to this evolving retail environment. Fresh food operations need velocity and variety to offer an appealing option to consumers and avoid excessive shrink.

Small drops in shopper visits, leading to small drops in purchases have big impacts here. A retailer starts out with a nice appealing offer of 20 different prepared food options, then sales decline and the store drops the five lowest selling options to keep freshness up and reduce shrink. But the new assortment is less interesting to consumers and makes the store less of a destination for prepared foods and a kind of disastrous cycle begins. Sales drop, so they cut assortment to 10 items, which further reduces the appeal of the offer, so they cut to eight and, before you know it – it is just a store that sells some fresh lasagna.

On the producer side of the industry, the good news is consumers are likely to eat as much as ever, so the imperative is for producers to make sure their marketing efforts are aligned with consumer purchase behavior. Total sales may not be a good guide, especially if those sales are concentrated in declining segments, where they could disappear very quickly. The question is: Do you have a focus on dollar stores or a focus on online services, etc., etc.?

For retailers, the challenge is that you can't expect old, one-size-fits-all concepts to sustain you in the years ahead. Do you have a competitive online offer? Do you have a terrific small store concept? Are you focused on offering banners and services that compete effectively with discount operators such as Lidl and Aldi, with epicurean approaches such as Trader Joe's, with health-oriented concepts such as Whole Foods, and on and on with warehouse clubs, dollar stores, restaurant delivery and takeout, etc.?

There is nothing shocking here. The industry has been talking about these issues for decades. But timing is everything, and with Amazon Fresh having moved out of its Seattle test market, and Lidl about to begin its rollout, this will be the year many decisions will be moved to the front burner.

In the end, consumers will be better served and will eat more wonderful deli products, but the collateral damage to many producing companies and retailers, companies unable to adapt, will be substantial.

**DB**