

# Consumer Insight

## Great service trumps low price competition

You can compete with discount retailers, even if your prices are higher, by focusing your grocery store on providing great service.

By Michael Bergdahl

**T**his past year I delivered a keynote speech at the Montana Food Distributors Association annual conference. In the audience that day were grocers, FMCG companies, and grocery product manufacturers of all types. As part of my preparation I decided to perform a shopping cart comparison of supermarket grocery prices compared to the prices offered at a Wal-Mart Supercenter. I made certain that the two stores I chose were located in the same market area vying for the same customers. I was curious to find out how aggressive Wal-Mart's Every Day Low Price Strategy really is!

My shopping cart comparison involved selecting 50 of the most commonly purchased branded grocery products, and comparing retail prices. Grocers call these items "staples" and most grocers do everything in their power to make certain these staples are priced competitively in the marketplace. The reason of course is because consumers are aware of the prices of staples and things like milk, eggs, butter, etc. are considered "price sensitive purchases." Consumers are known for leaving one store for another if they determine the "staples" are priced too high. A good rule of thumb for grocers for pricing staples is to strive to

be equal to the market on the pricing of all staples. Obviously to do this requires that grocers do their own shopping cart comparisons of their direct competitors each and every week to remain competitive.

Wal-Mart is known for performing this same kind of aggressive shopping cart price comparisons in every market area where it does business for each of its stores. Each week, its Department Managers shop the competition's stores noting prices, and upon return to their stores, they adjust pricing accordingly. Even Wal-Mart's District Managers (DMs) perform price comparisons. DMs will



purchase a shopping cart of products from a competitor's store, and return to Wal-Mart where the just purchased items are rescanned. They then lay the register tapes side by side and compare prices item by item. You see, Wal-Mart's pricing is established on a local level based on competitive pricing analysis of its local competitors. In other words, two Wal-Mart stores in the same geographic area are likely to have different prices based on the competition each faces. By the way, contrary to popular belief, Wal-Mart's prices are not the lowest on every item in a shopping car comparison. However, the bottom line of the register tape will be!

Trust me when I tell you that I was careful to make certain I matched products exactly in order to do an exact price comparison. The two stores I chose, by the way, are within a stone's throw of one another, so clearly they are drawing customers from the same market pool. What I found out in my shopping cart pricing comparison was astounding! The prices offered at Wal-Mart were fully 20 percent lower (on those 50 grocery staples in my comparison) than the prices at the grocery store. Interestingly, the parking lots of both stores were full of cars and the aisles of both stores were filled with customers! I began to question the theory that a grocer's staples needed to be priced equally to a discount competitor's pricing in the same mar-

ket area. On closer observation I determined the reason this grocer was not only surviving, but competing and thriving, was a result of the fact that this store provided great service! Without great service grocers must match a discounter's prices on staples. With great service, pricing of staples and other products becomes less critical, though still important. (In a market where a grocer is in direct competition with a discounter it is recommended that the grocer's pricing stay within 15 to 20 percent of the discounter's prices.). I have found that a grocer providing great service can effectively neutralise the discounter price advantage, and level the competitive playing field. You might say, great service by a grocery store "trumps" low price discount competition!

Grocers must take advantage of the fact that shopping at a discount behemoth isn't convenient for its customers while service is almost nonexistent. Also, every customer isn't interested in a discounter's offering of low quality products at low prices. These facts provide a great opportunity for grocers to use their own store's stellar service, and tailored product assortment to gain competitive advantage. When grocers discover that providing great service to their customers minimises the pressure on product pricing,

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it can be tantamount to the discovery of fire!

Here are 10 service lessons for grocers that they should embrace, whether or not they are in direct competition with a discounter in order to turn great service into a competitive advantage:

1. *"If you're not a discounter don't try to act like a discounter."* By their very nature grocers are highly competitive people who relish the opportunity to take on aggressive competitors. Unfortunately, when it comes to price competition with superstores,

discounters and category killers, grocers need to avoid the temptation of getting into price wars. You see, by playing the discounter's game you are playing right into their hands. It's a trap they've set for you, and a competitive battle they'd love for you to wage! It's a battle they must win, and they will win at any cost! Once they suck you into price-based competition your business will begin to spiral downward (expenses will rise as sales volume falls), and there is no turning back. Additionally, by sending the message to your customers that you are a discounter you will have changed their expectations... forever! Always remember, "every day low prices" is a discounter's strategy, it is not yours. Control your own destiny by designing your niche strategy with products targeted at local tastes and preferences, and great service.

2. *"Great customer service starts before a customer ever enters the store."* It's the little things that matter. Are your floors, windows, and bathrooms clean? If you think about it customers either overtly or subliminally may assume dirty facilities equal substandard food quality. Are your shelves always well stocked? Simply being able to find the products that they want and need gives the customer the feeling there is no reason to shop anywhere else. Is there enough staff in place to ensure that enough cash registers are open? Customers can shop in your grocery store for an hour, but when it's time to checkout they want to checkout now! Customers hate to wait, so schedule your staff accordingly.



3. *“Customer loyalty card programmes are a way for grocers to show they are loyal to their customers, not the other way around!”* The strategy behind loyalty cards is brilliant; you reward customers for continuing to shop at your store by providing discounts that are only available to cardholders. The customer’s use of the loyalty card allows the grocer to capture invaluable customer purchase preference data that can then be used to focus future product offerings. Many grocers who have adopted loyalty card programmes have found them to be highly effective in not only retaining existing customers but also in gaining new customers. It is a win-win for the grocer and the customer by creating value for customers while earning a lifetime of loyalty to your store! A grocer’s loyalty card programme is both a highly effective customer retention programme, and one of the most effective tools you can use to combat the pressure of discounters moving into your market area.

4. *“Sam Walton taught his employees to ask unhappy customers the question, ‘What would you like us to do?’, and his employees were empowered to fix the problem.”* There is an old adage in customer service circles: ‘the customer is always right!’ Those of us who work in grocery retailing know that this isn’t literally true, but when it comes to our customers we must act as if it were! One hundred percent of the time, your employees must project a positive attitude, along with respect for our customer’s point of view. It is never appropriate to argue with your customers; if you do you’ll find the outcome isn’t positive for your business. You may win the argument now and then but you will more often than not lose a customer. What is one customer worth who shops in your store 52 weeks a year? If you treat customers right you can likely count on future business, and even good word-of-mouth advertising. Argue with, and debate with your customers, and ultimately prove your customers weren’t right, and you are likely to lose that customer for life. That former customer will also tell everyone he or she knows about their bad experience in your store! That’s the customer service version of “winning the battle but losing the war!” Grocery store employees can’t afford to have a “bad” day. Don’t ever forget, if it weren’t for your customers your grocery store would be out of business. If you treat your cus-



tomers poorly they’ll vote with their feet by doing business with your competitors. Adopt the attitude that your customers are always right, and you’re on your way to establishing customer relationships that may last a lifetime!

5. *“Out of stock is out of business.”* Walk through your own store as if you were a customer. What do you see as you peruse your own aisles and shelves? Are their un-merchandise products in boxes on the floors? Are you able to navigate the aisles easily with a shopping cart? Are there holes in your inventory where products are missing? Great execution of store operations strategies requires a commitment to training your entire staff to aggressively re-merchandise shelves through out the day. Being in-stock is the ball game in retailing, and those grocers who execute their merchandising strategies the best will increase sales and improve profitability. Shop the discounters and you will see how they are failing to keep products in-stock throughout the day. Therein lies a competitive opportunity for you. Customers expect to find the products they want to buy on the shelves each and every time they shop your store. If products aren’t there do you think your customers simply forego purchasing that item this week, or do they go to your competitor to make the purchase? Why give your customers a reason to even think about

shopping at your competitor’s store? It may sound funny, and as basic as it sounds, the grocers who are able to keep their shelves consistently in-stock are creating a sustainable competitive advantage in the marketplace! Operationally, nothing is more important to your store’s success than to simply be in-stock.

6. *“Stack it high and let it fly”* When you advertise promotional products -- and all grocers do -- make certain to buy deep enough to ensure that advertised products are available throughout the promotion. There is nothing wrong with being promotionally-oriented as long as your buyers are empowered to take the risk of buying sufficient inventory to back up your promotions. Few things are more annoying to a customer than to go out of their way to shop at a store for a specific product, advertised at a great price, and then to find once they arrive at the store that it is out of stock. This is one of the fastest ways to destroy your store’s reputation and drive customers away. Never build an expectation, and then fail to deliver on it!

7. *“Use an outside-in approach to selecting products and services.”* Selecting the right products for his stores and his customers was one of the great secrets to the success of Sam Walton, the founder of Wal-Mart. He used an outside-in approach to

picking products. He visited his own stores and simply asked his customers every day what they liked/disliked in the product mix, and what products were missing that they wanted him to sell in his stores. This approach is still in use today by the company’s product buyers who travel out to stores each week. Grocers can use customer focus groups, or they can ask their team to speak to individual customers who are shopping in the store. Regardless of the method you use, it is vitally important to gain product insights directly from your own customers.

8. *“The customer is the boss, and they can fire you by simply deciding to spend their money elsewhere.”* Do you know who pays the bills at your business? I am talking about the rent, lights, gas, electric and even your pay and benefits. The answer is, of course, your customers. They pay all of your bills by choosing to spend their hard-earned money on your products. But customers can change their buying habits, and they do it all the time. Don’t ever forget they can choose to walk away from your grocery store in favour of spending their money at your competitor’s store. Think about that for just a moment. In fact you should think about that every day! What are you doing to make your customers want to continue doing business with you? Are any of your employees who are providing service to

your customers taking your customers for granted? There are plenty of alternative sources for groceries; is there a compelling reason why your customers should continue doing business with you? Explain to your employees the concept that the customer is “the boss”, and the importance of providing great service. Tell them that without the customers shopping in your store the store would close and they would be out of jobs!

9. *“Shop at your competitor’s stores and study their pricing, products and promotional activity, and look for ideas you can copy.”* Grocers need to make it a practice to study their local competition. Study your competitor’s pricing structure, products and promotional activity. Don’t limit yourself to other grocery stores either. Visit speciality stores for ideas for merchandising, graphics and signage. Let’s face it; there is no business more transparent than retailing. You can shop at your competitor’s stores and they can shop at yours. Sam Walton believed in “stealing ideas shamelessly” from his competitor’s stores by simply walking into their stores, and observing their operations. He always told us that there are no extra points for original thinking. He believed that if you can copy an existing idea already in use by another retailer it is much cheaper than designing a solution from scratch yourself. Require each member of your management team to go out to visit stores periodically and have them report what they find. Ask them to

pay particular attention to ideas they can bring back to improve service to your own customers.

10. *“Sam Walton intentionally put his return desk at the front of his stores so all the customers in the check-out line could see how customer problems were handled.”* When a customer makes a purchase it is quite easy to smile and thank them for their purchase. How do your employees react when that same customer tries to return that purchase for a refund or a replacement? Grocery store cashiers are well trained to ring up purchases and collect money, but less time is typically spent on teaching the importance of service after the sale. Your customers will learn more about your company from the way you deal with a product the customer wants to return to you, than they will from the way you handled their original purchase. Do you provide service with a smile? Are you just as glad to see the customer making a return as one who is making a purchase? The reality is that you should handle both transactions in the same positive manner.

Some companies have restrictive return/service policies, which create bad feelings for their customers. If you treat your customers well when they have a problem they will reward you by returning again and again to make future purchases. If you mistrust your customers, and make them feel like naughty children when they try to return a product, they’ll leave you, and spend their money elsewhere!

## Great service can effectively neutralise the discounter price advantage, and level the competitive playing field.

Show your loyalty to your customers by taking care of them when they have a problem, and they will reciprocate by being loyal to your grocery store. A good rule of thumb to follow is this: take care of your customers, the same way you would personally want to be treated if the same thing happened to you!

### CONCLUSION

*“Grocers can compete and thrive in a big box discount world!”* In the USA more than 31 regional grocery chains have gone out of business since Wal-Mart entered the grocery business. Today Wal-Mart is the world’s largest grocer. In markets around the world,

where Wal-Mart has opened stores, there are grocers who are not just surviving in its shadow, but they are thriving. In my estimation customer service is one of the most important common denominators of those grocers who are competing successfully. The common thread these companies have discovered is that to achieve great customer service requires staffing great people, training them properly, empowering them to serve, and retraining them periodically. It also helps to have a company culture that values service over everything else. If you do everything in your power to make shopping at your grocery store as easy and enjoyable as possible for your customers, you will find you can compete with discounters! Remember to avoid the temptation to compete on price, and never forget, “great service trumps low price competition!”

When you stop worrying about making money, and concern yourself with taking care of the needs of your customers, success will follow. ■

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