

## Company of the Month: Supermarkets

### Introduction

One of the secrets of a successful business is to understand your customers' needs, personalities and purchasing habits. If you can predict what your customers will want to buy, you will have time to supply the goods when the customers want to purchase.

Supermarkets have turned understanding their customers into a science.

### Secrets of layout

The goods in supermarkets are on open shelves rather than being behind a counter as in traditional shops. The temptation for customers to steal goods is much greater. For this reason, supermarkets were the first type of shop to install closed circuit television cameras [CCTV] to watch the customers.

The CCTV reduced theft from supermarket shelves but also provided fascinating evidence about customer behaviour. By studying hours of video tapes of customers moving around the shops, supermarkets were able to gain insights into customer behaviour. These insights have influenced the design and layout of supermarkets.

### Decompression zone

The experience begins when you first enter the supermarket. You enter what they call the 'decompression zone'. This area is warmer than outside and is designed to make you feel comfortable and unstressed. There may be relaxing music playing quietly on the public address system. The entrance is a dead zone in commercial terms because customers are not yet ready to purchase. Customers enter a supermarket at normal walking speed and do not slow down until they are through the decompression zone.

### Look right

75% of customers look towards the right after entering a supermarket. This is a good reason to place the most attractive offers on the right rather than the left.

### Dwell zone

Often you will find an area selling newspapers, magazines close to the entrance. This 'dwell zone' encourages you to browse the shelves and make some impulse purchases before your real shopping begins. This zone may also contain DVDs, CDs and books.

Music, books and films for adults are placed on higher shelves. Things which children will like are placed on lower shelves where children can easily pick them up. This is not just to 'protect' children from the temptations of adult content magazines on the top shelf, it means that while the adult's eyes are on the higher shelves selecting a CD, the children are putting their favourite items into the shopping trolley.

## **Fruit and vegetables**

Making 'fruit and vegetables' the first food department is not designed for the convenience of customers. If you put soft fruit or vegetables into the bottom of your shopping trolley, they will be crushed by your later purchases. But supermarkets have realised that the psychological attraction of good health, freshness and quality which is associated with this section is very strong. It is so strong that it influences your purchases in that department and continues as you move through the store.

## **Gondola Ends**

As we reach the end of an aisle we have to slow down to direct our trolley around the corner. As we make the turn our eyes fall on the items displayed at the end of the 'gondolas'. A gondola is a free-standing shelving unit. These are 'hot spots' for supermarkets. They are the most profitable shelves for the supermarket. A great place for impulse purchase items or 'something special' which will make your family happy.

## **Themed aisles**

Supermarkets exploit seasonal purchases by having aisles which are themed to seasonal items. "It's barbecue time" the aisles will tell you, and you will find barbecues, firelighters, picnic plates, kebab skewers, aprons and gloves all in the same place. You will have to resist the temptation to purchase for the barbecue which was not in your mind before you entered.

In the same way, we are prompted to purchase items for Christmas, Easter, 'Back-to-school', Father's Day and so on, by the supermarket's themed displays.

## **Essentials**

You will always need to purchase bread, eggs, and milk. These essential items are displayed deep into the supermarket so you even if you only intended to purchase these essentials you will have to pass many temptations before you reach the shelves where they are sold.

## **Shelf positioning**

The positioning of items on a shelf has been studied in great detail. We read shelves in the same way as we read books, from left to right. Our eyes remain longest on items on the right, so the most expensive brands are always on the right. The cheapest brands are often hard to see on low shelves because the supermarket wants you to purchase the expensive brands at eye-level.

## Soap, detergents and cleaning products

These are important items in any shopping trolley and they make an important contribution to supermarket profits, but they must always be placed near hardware, toilet paper or other non-food items. This is because the artificial perfumes added to these products can very easily contaminate the taste of food.

## Alcohol

Alcohol is always the last aisle before the checkouts. Supermarkets try to communicate a fresh, healthy image. When you have filled your trolley with fresh healthy food, you can feel less guilty about indulging yourself with some alcohol.

## At the checkout

Supermarkets know their customers don't like queuing at the checkout (in fact some supermarkets monitor the number of customers at the entrance and adjust the number of checkouts open). But the customer standing in a queue at the checkout is stationary and therefore a tempting prospect for any supermarket. Can the customers be tempted with car insurance, holiday offers, savings plans, internet connections or mobile phone cards? It is more difficult to sell these items to a moving customer, but a bored, stationary customer might pick up a leaflet and make a purchase.

And of course, while the adult is reading about a cheap holiday in the sun, the children are grabbing sweets from low level displays and adding them to the trolley.

## Bar-coding and stocking

Since every item in the supermarket carries a unique barcode, and that barcode is scanned at the checkout, at any moment in the day, the supermarket can know precisely how many tins of Heinz Baked Beans it has on its shelves. All businesses lose money through goods which are tied up in stock. The computer-checked bar coding used by supermarkets means that they can keep very strict controls of their stock levels and therefore control their overheads whilst providing a reliable guarantee of availability to their customers.

## Pricing

'Pile it high, sell it cheap' used to be the motto of the first supermarkets. Today, their attitude to pricing is much more sophisticated.

If we accept that the main function of supermarkets is to collect the largest amount of money from customers as possible we can begin to understand the pricing policy.

Again, if we accept that there is no significant difference between products in different price bands, we would naturally prefer our customers to buy the more expensive brands.

Supermarkets have realised that they should always make it easy for customers to 'trade up' and buy a product which is slightly more expensive than their normal purchase. For this reason, supermarkets very often offer four brands of a single product ranging from the cheapest to the most expensive. Each brand is priced carefully so that it is a small pricing step away from the higher priced brand. Customers are discouraged by big differences in prices, but a small pricing step encourages them to trade up.

## **KVIs and pricing**

With the thousands of items available in a large supermarket, it is impossible for customers to keep track of what is a reasonable market price for every type of product. Supermarkets have discovered that there are a limited number of KVIs – known value items such as bananas, milk, bread, baked beans. Supermarkets are happy to offer the lowest prices for these KVIs to bring customers into the shop where they can then sell them products which produce better profits.

## **BOGOFs and special offers**

BOGOF is the acronym for 'buy one get one free'. A BOGOF is an attractive type of special offer which tempt customers to buy more than they need whilst believing the supermarket is their 'friend'. It is also good for shifting stock quickly.

Supermarkets use special offers to bring focus on to a product and drive profits through increased sales.

The customer should be wary of special offers and carry a pocket calculator to assess the actual value of the offer.

We are offered £1 off the price of mushrooms. Is that a bargain? Yes, it would seem to be a good offer until we realise that it is £1 off the price of a kilo of mushrooms. Few customers would buy more than 200 grams, so the reduction has very little meaning.

Beware of shrinking products. The Mars chocolate bar used to be a KVI amongst children. The only way the manufacturer could increase profits was by gradually reducing the size of the product. After doing this over a period of years, they could return with a higher priced 'monster' Mars bar which was only slightly larger than the original product.

## **Loyalty cards and data collection**

Supermarkets love 'loyal', returning customers who do not stray to inspect other supermarkets. Loyalty cards are a great way to give your customers the incentive to return. Every pound you spend with a supermarket gives you some 'points' on your loyalty card. These 'points' are converted into discount vouchers and special offers which are mailed to the customers at home.

Customers feel it would be a criminal waste of money to throw away these vouchers and offers, so they are kept at home where they shout at the customer to go out and spend more money while using their vouchers.

The loyalty cards look like credit cards and they are scanned at the checkout. In fact, they are just a subtle way to collect information about the customers. Your purchases are your personality. Your loyalty card is the doorway into your brain for the supermarket.

### **Time management tip**

Since you have given your time to reading this article, let me reward you (for your loyalty) with a time management tip. Always make a shopping list before you go to a supermarket. Make a map of the layout of the supermarket aisles and list the items on your shopping list in the order you will purchase them. This means you can rush past all the other products saving time and the money you would spend on unnecessary purchases.

### **And finally...**

Never ever go to a supermarket when you are hungry!

### **Activities**

A Check your understanding of these abbreviations.

<b>BOGOF</b>	<b>KVI</b>	<b>DVD</b>	<b>CD</b>	<b>CCTV</b>
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### **B**

- Where, in a supermarket will you find:
- Gondola ends
- Checkouts
- Essentials
- Soap and detergents
- Newspapers and magazines
- Offers for car insurance
- Alcohol
- Decompression zone
- Fruit and vegetables

**C** Draw a plan of a supermarket you know well and check how far the rules of supermarket layout apply.

**D** Supermarkets have used new technology – CCTV, bar codes, electronic loyalty cards to improve their profits. How could new technology benefit your business?

**E** Supermarkets have invested time and money in learning about their customers and their behaviour. What would like to know about your customers? How could you obtain that information? How would you use the information?