Why ‘middle’ is no longer a dirty word for supermarkets

By David Orgel in Viewpoints

The worst thing about conventional wisdom is it's often mistaken for absolute truth. Case in point is the assumption that supermarkets are stuck in the middle — between value and upscale retailers — and dying as a result. As this line of thinking goes, supermarkets are also too reliant on the middle-class, which is fading.

How many times have you heard these contentions in recent years, whether in the media or in business forums? But it's not true.

The latest and possibly best debunking of that myth comes from the investment community in the form of SN's latest Financial Analysts Roundtable. This was the 20th version of this annual gathering of the best and brightest food retail analysts. Over the years participants have taken us on an industry roller-coaster ride, from the days of fear over Walmart Supercenters to the present era of a new generation of consumers.

In the latest gathering, analysts addressed the outlook for the middle, including supermarkets and middle-income consumers.

Imagine yourself as a fly on the wall in the 10th floor conference room of Supermarket News’ New York offices as this discussion unfolded.

“It's a good-time for middle-income consumers,” said Meredith Adler, managing director for Barclays Capital, New York. She and others made the point that people are a bit more confident about jobs and the economy.

Another analyst, Andy Wolf, managing director for BB&T Capital Markets, Boston, recalled how during the Great Recession people were heralding a “new normal” in which shoppers would flock only to discount stores. But that shift apparently wasn’t permanent.

“We're seeing … more people paying more money to go to supermarkets instead of discount stores or other low-price alternatives — trading money for convenience,” he said.

In further discussions, analysts drew a link between the great middle group of consumers and the emerging Millennial generation.

“We have this huge bubble of Millennials that are coming through the channel, which I think makes the middle look really good, and I don’t think it's just for supermarkets but for the entire mass market,” said Scott Mushkin, managing director for Wolfe Research, New York.

That last comment appears to shoot down another myth about supermarkets: That they don’t have what it takes to compete for Millennials, a generation with tastes focused on specialty and healthy foods.

Roundtable participants said supermarkets are making notable strides in courting these younger consumers with categories such as natural and organic.

continued...
“One of the things I think supermarkets are demonstrating is flexibility,” said Adler, “particularly when you compare them with the CPG companies, who can’t really jump on the natural and organic bandwagon quickly because they have so much existing infrastructure tied to their conventional products.”

She likened supermarkets’ flexibility to that of department stores, once written off for dead but since then reimagining their spaces for new needs.

I’ll stop here. You’ve read enough to get the point. Supermarkets aren’t fading or irrelevant. That contention could have been true, but the best retailers instead are adapting to challenges. And if you read our roundtable history of the past two decades, you’ll see supermarkets have long been good at doing just that.

For more information please contact Greg Bethke at gbethke@mancoabbott.com

By David Orgel in Viewpoints
Sep 28, 2015