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Commercial distribution: Current situation and trends. Opportunities

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Modern distribution plays a very important role in current trade as it provides consumers with the products that satisfy their household needs (foods, cleaning products, electric appliances, furniture or even services).

Focusing on food products, the subject of concern, distributors provide consumers with products from the primary sector, either directly or indirectly, through manufacturers, intermediaries, wholesalers, etc. In the case of direct access to the primary sector, distributors manage the purchase and slaughter of animals directly, as well as jointing, packaging and distribution of the manufactured products through their own platforms to the sales outlets. Direct purchases to producers are based on lasting, reliable and profitable partnership relations for both parties, as a result of which an agreement is reached on a common list of conditions, stating the characteristics of the process and product, which in turn is translated into consistent products and services. In principle, this may seem very simple but markets are constantly changing and in most cases the environment cannot be totally controlled.

In todays's society several changes are taking place, giving rise to various circumstances which are making food consumption habits develop very quickly, both from the viewpoint of the type of products as well as their format. Thus, it is very important that modern distribution understands what frame of reference we are working in.

First of all, we have to know the environment we are not able to control, which may be determined by factors such as the legal, economic, technological, and socio-demographic frameworks. In fact, the latter is providing a very specific picture of the current and future situation, which affects distributors considerably when adopting commercial strategies. It should be pointed out that the population in Spain is getting older, the "senior target" is increasing, and by the year 2010 it is estimated that around 60% of the population will be between 25 and 64 years old. Of even more concern is the fact that almost 20% of the population will be over 65. Besides, if it had not been for immigrants, the birth rate was declining dramatically year after year until the end of the 90s. On top of this we have to take into account that in the last decade the number of households has increased but the total population has not increased at the same pace, and as a result the average household in Spain has less than 3 members, and more significantly, 20% of these households have a single member - in other neighbouring European countries the percentage may be as high as 26%.

Besides, family budget allocation has changed; now more is spent on housing, leisure, culture and training and less is spent on food, in global terms –in Spain only 2 € out of 10 € is spent on food and in the USA they have already reached 0.9 out of 10. That is, we are living in a society where consumers have high education levels and are very much concerned about the environment, quality, food safety, information and leisure, factors that were less valued in former times.

Under this paradigm, the themes that rule motivation and buying impulses are: in the first place, health and personal care, hence the concern about safety, the development of functional, light foods, etc. Next, convenience, easy and quick to prepare foods, since we are a society "poor in time" and for this reason we are observing the emergence of new products that facilitate preparation and are quick and easy to use. Finally, fads and personal prestige, where we have to know how to combine products and services of high face value at a reasonable price and the cheaper the better, hence the term "cheap - chic", which refers to a combination of low prices and aesthetics, fashion and glamour. Important business groups are already operating in this field mainly in the clothing and restaurant sectors; in the food business we have a clear example in the wine sector, where the traditional production sector has added to its products perceived values which exceed their real values and at prices that are more than reasonable through very attractive labels and a very interesting marketing effort. Likewise, in the food sector, some manufacturers have already worked in developing powerful, modern and attractive packagings, as in the case, for instance, of bottled water, filleted meat, "patés", etc.; even developing new product designs like for instance, "roscas", which are in fact ready-to-bake common donought-shaped bread rolls.

For these reasons, modern distribution has to learn to manage an attractive supply of products and to attract consumers who are becoming less and less loyal to the shop, who visit shops less often, that is, consumers shop less often but they spend more money. Furthermore, the average time they spend at the shelves is very short, and thus we have to attract their attention when they visit a shopping mall with suitable value for money products (high development of distributors' brands), with very safe products, an attractive and interesting selection and provide elements such as convenience, cleaning and order inside the shop, in accordance with the consumers' demands, and in fact this is what they say when asked. Besides, the shopping activity is becoming more planned and rational and less impulsive. Another important change that is taking place in consumption habits is the shift towards consumption at home, with a decrease in consumption out of the home, shown by data of some manufacturers.

The situation of the food market is also being affected by the strong concentration of the distributors and the manufacturers, due to the continuous demand, year after year, for profits, which means that processes have to be optimised and purchase volumes grouped together in order to improve costs, since the increase in benefits through a rise in prices is increasingly more difficult because of the great competetition that exists on the market. This is leading to a more and more evident polarity between the market leader brands and the brands developed by the Distribution, in detriment to other brands put on the market by manufacturers with less market power and furthermore, real subsistence probems arise in the business fabric of the Agrofood Sector. In fact the top 5 distribution operators in Spain hold a market share of 50%, but for example in countries such as Sweden, Norway and Holland, the first 3 groups hold more than 80% market share, with a growth in the last year of more than 12%, far above the average growth of the market, at around 6%.

Distribution is classified in 3 main groups or business formats: Discount (or Hard Discount), a price-oriented format that does not give so much value to the brand. The Supermarket, where a multitude of strategies are being developed to capture consumers who are saturated with such a large commercial offer, however, which is the fastest-growing channel in m^2 sales surface area and in turnover, above 8%. And the Hypermarket, where the varied supply of brands gives rise to a very attractive selection for the customer and where the purchasing volumes permit very aggressive prices. It is noteworthy that the greatest distributor in Spain has a market share of nearly 20%.

The weight of distribution in Spain in the meat sector would not be as large, as the traditional channel, made up of markets, specialised and traditional shops and also own-consumption maintains shares at around 40-50% of the total market. In the case of the processed meats the share of the traditional channel is much smaller, around 25%, in favour of modern distribution, with shares approaching 70% between the Super and Hyper channels.

Of the total grocery basket, approximately 22% is made up of meat products, which would be encouraging for the sector except that meat is a category of products that has only grown by a volume of 3% in the last five years. Of that piece of the cake, chicken, pork and processed meats lead the consumption of meat products, holding around 70% of the consumption. In recent years beef and lamb consumption has decreased, as well as that of frozen meats, which, with a share of only 3%, cannot escape the dead weight of this type of product as in the back of the consumer's mind is the idea that they are products of lower quality than fresh products, distributed at the beginning in areas where access to this type of product such as meat, fish and vegetables in general was more difficult, whereas this is far from true, since they are products with an identical transformation to that of the fresh product, but whose final transformation takes place in a freezing tunnel in order to facilitate its subsequent transport, distribution and conservation. Therefore, manufacturers and distributors are making great efforts to change this perception by making changes in the products, adding value, making changes in the presentation and even in the exhibition and implantation in the shopping malls, all of which is conveyed through specific marketing campaigns for this type of product where manufacturers and distributors work in close collaboration with each other.

Furthermore, it is to be considered that pork and poultry are the categories that have evolved most in the new consumption patterns, with an important development of new presentations, special cuts, new packaging and even ready-to-eat prepared dishes. In fact, this is confirmed by a survey that has been conducted among consumers in order to determine the weight of the consumption of different meat products according to type of household; where we observe that chicken and pork are the favourite products among young people, whereas beef, lamb and rabbit are the products preferred by households made up of members over 50 without children.

After analysing the sociodemographic changes that are taking place in society today, as well as the consumption habits and patterns that are evolving in the food market, we should be capable of gathering enough clues to be able to seek opportunities that we should address from commercial distribution.

In summary, we have seen that the age of the consumers is rising and therefore the target customer is increasingly more adult, the number of single-parent households is rising, the expenditure in food is stabilising in favour of other budgetary items. The aspects that are currently very highly appreciated are health, safety, personal care, time-saving, comfort, speed and fashion and personal prestige. The food crisis has led to a growing sentiment of mistrust and thus the need for safety, leading to the development of quality brands, certifications and controlled productions, all of which fall under the umbrella of distributors brands. Also noteworthy are the changes that are taking place in the distribution channels, where self-service is increasing constantly, and great importance is given to packaging and product information. This is due to the fact that consumers visit the commercial establishments less and less frequently, and therefore are encouraging the promotion of packages that increase the shelf-life of the product.

With all this data, we have to know how to identify the opportunities that arise in the light of the changes in consumer priorities and as regards the market. On one hand, as we have indicated previously, we have to face the lack of confidence and the need for the consumer to feel safe through certified products, controlled production products, quality marks and supplier homologation programmes. On the other hand, we have to satisfy the needs created by social changes and changes in habits: through trays and portions better adjusted to the household size, prepared foods ready to cook and consume, joints that are easy to use and prepare, packages that guarantee a longer shelf life and new products with added value, targeted towards a consumer that positively values innovation.

In the needs satisfaction pyramid it is important to point out that between the safety and pleasure zones, leisure, interpersonal and power relationships, the need for an adequate and healthy nutrition is gathering strength, hence the strong development experienced by the so-called functional foods, with annual growth at around 14%, based on the development of products of basic consumption or commodities to which certain substances are added to improve some of the most common bodily functions: according to Datamonitor, in 2004, 27% of functional foods were targeted at cardiovascular function, 24% to the digestive function and almost 15% to the locomotor apparatus, in particular bones. Some authors qualify functional foods as those that eliminate from their composition natural substances such as salt, sugar or fats whose presence in foods could make certain conditions worse. Today functional foods are being studied to improve problems of interest today such as the lack of sleep, stress, obesity, or even cell ageing. As regards health, a series of products aimed at overcoming intolerance to foods or food allergies, for example to gluten, to help celiacs practise a healthier diet in the light of their problem.

Finally in this section on health and nutrition, we should not forget the awareness of today's society of dietary products derived from transgenic productions (GMOs, especially maize and soybean), contrasting two different ways of seeing reality: on one hand the detractors that wish to show that genetic manipulation of crop seeds could have repercussions of the health of the final consumer, and on the other hand, those in favour, who argue that these possible negative repercussions have not been proven and besides, defend that the traditional production systems have a very negative environmental impact on the Earth and that it would be necessary to have much greater cropland areas in order to obtain the same result. At the moment the consumer has not sided with one party or another other, they only demand the necessary information in order to know what they are consuming. Aware of this debate and of the demand for information, the EU has already developed a label law, according to which it is necessary to inform of which foods have ingredients of GMO origin. Logically, distribution is not foreign to this social debate and some operators in the EU have already withdrawn products that contained GMOs from their shelves and have conveyed this to their customers.

Conclusions

Times are changing in the distribution of food products, bringing about new challenges which require a better adaptation to the environment, both by the manufacturers and by the distributors. No longer should we not only be product-oriented but also much more customer-oriented, basing competivity not only on both product and price, but also on service and on customer service, on the relations and community factors and on experience as a basis for future transformation. As regards the possible future evolution of distribution, a sustained decline in the traditional channels is expected, concentration movements of regional supermarket chains, a growth in commercial surface area through small convenience store formats (more favoured by opening licences than the bigger hyper-type formats), a growing regime of franchises and, in general, a greater concentration of distribution to reach the size that is necessary in order to survive.