

2.12: Putting It Together- Retail Environment Analysis

In the last 20 years, groceries have moved from the grocery store and supermarket to a whole host of other channels, where different retail formats are using food to increase store traffic and to increase revenue. This is important because our existing grocery and supermarket formats, largely unchanged in over 60 years and with very thin operating margins, are now competing with a host of new competitors. And, even more change is promised. Continued development of e-commerce, changing consumer behavior and increasing labor costs put pressure on operators to be more efficient and customer-centric.

The pressure of e-commerce will continue, pushed by ongoing investment in infrastructure and capabilities. Look no further than Wal-Mart's acquisition of Jet.com in August of 2016 or Amazon's acquisition of Whole Foods in October of 2017 to know that the biggest players in retail are serious about expanding channels and their outreach to consumers. Retailers that blend .com with traditional "brick & mortar" outlets are positioning themselves to address how people shop in a mobile and digital world.

Know that mobile technology has absolutely changed shopper behavior. Consumers are empowered to engage retailers in ways that were largely unavailable even 10 years ago. And, they're taking full advantage of this to shop on their terms at their preferred time in-store or online. Further, they have higher expectations around price transparency and customer service, given the global access to information in a connected world.

Demographic changes in the population, especially influenced by "the graying of America," and increasing racial & cultural diversity, are also having profound influences on the retail environment. For example, baby boomers, as they age, are reflecting an interest in health & wellness. This, in large part, has contributed to the mainstreaming of fresh, all-natural and organic foods. Similarly, the increasing diversity in the US population has led to bilingual packaging, specialty grocery stores and the broadening of tastes, reflected on restaurant menus and in the flavor offered in packaged foods.

Wage pressure is another factor that retailers will need to manage to ensure their viability. While wage growth is a positive for store employees, the cost of labor is a significant concern in businesses already working with thin margins. To ease these pressures, expect investments in automation, such as self check-out, and reductions in staff, which will mean expanded responsibilities for associates.

Yet, despite the challenging environment, there are many reasons to be optimistic for the future of retail. First and foremost, we are likely moving into a period of experiential shopping, where the store environment becomes central to the retail experience. Stores will become more immersive and interactive, sources of "retailtainment." And, in these settings, the associate plays a vital role, expert in the product assortment and service. Second, there appears to be a rise in specialty stores, such as butchers and bakeries, where customization and service replace mass production and scale. To be sure, retail is undergoing dramatic change. Thus, it's critical that we understand the alternative formats and identify how we can most effectively compete with them, whether we're selling a simple can of soup or a unique customer experience.

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