Gas versus groceries

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A University of Alberta researcher says grocery retailers need to take heed that a jump at the pumps will be a blow to their bottom line. Alberta School of Business professor Yu Ma notes that if stores want to survive, they'll have to change their tactics in the face of rising gas prices in order to attract shoppers "hungry" for better deals.

Ma and his colleagues say that when the price of gas rises, the monthly grocery bill is the prime target for cuts. The researchers noted that there are two sets of decisions made in the gas versus grub dilemma. The first choice deals with location, which Ma notes is based on choosing the frequency of shopping visits, and distance to the venue. The second is deciding what to buy and when—in other words, whether to forgo a favourite brand for a no-name substitute or middle-tier replacement item—or to search vigilantly for deals or promotions. Consumers may also elect to purchase at wholesale or warehouse stores thus, choosing to buy bulk products in order to save money.

Ma says that wise retailers, those who recognize the changes in their customers' spending trends, will give the people what they want. Industry inclinations towards opening warehouse clubs and supercentres are not something that companies can resist if they hope to survive.

"You have to start thinking about providing one-stop shopping for consumers; they want to go to one place and buy everything in the same store," said Ma. "You have to provide them with that convenience."

And while the gas-and-groceries concept has been around for some time, Ma notes that more retail grocers are using their own gas stations on site as a shopping incentive for customers. By offering discount fuel prices or savings incentives from in-store purchases, it is a value-added attraction for customers to frequent the stores, even if they may be a little further out of the way.

Gone also, he says, should be the idea of retailers putting only single items on sale. Consumers will less likely be attracted to a store for one item in the expensive gas environment. Savvy grocers will have to come up with novel incentives, such as offering a basket of goods at a reasonable price, as a viable means of attracting consumer, says Ma.

"If grocery retailers can offer a promotion or a pricing strategy that fits the customer's objectives, if they tailor their promotional message to consumers based on how they can save money, it would be much more effective than some blind (single item) promotion," he said.

Retailers are not the only ones who will feel the effect of shifting loyalties in the wake of the groceries versus gas struggle. Manufacturers also need to find a way to become more competitive without cannibalizing their own brands, says Ma. He cites the example of top-tier brands offering lower-cost, brand-name alternatives to lower priced no-name brands, introduced briefly during the recent economic downturn. Scaling back a product's price means that the quality is also scaled back, says Ma. But he warns that frugal consumers still want their money's worth from a product, especially when filling the family car with gas is drawing directly from the grocery budget.

"Manufacturers have to think of the best strategy to use ensure long-term prosperity, and not just for short-term gain," he said.

More information: Ma's article recently appeared in the *Journal of Marketing*.

Provided by University of Alberta

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