Strategic Issues for Apple Executives

Fighting the Last War

We can all learn from past experience. However, we can also learn past lessons too well. The classic example is generals throughout history that have learned the lessons of past campaigns and applied those to current battles.

Unfortunately for them, too often, circumstances in the meantime had changed. Weapons had become more powerful, troops had become more mobile, new means of communication had become available. Generals who were still fighting the last war got soundly trashed by generals who had adapted their tactics and systems to the changed situation.

In an old industry like the apple industry, there is a real danger that growers, packers and shippers, and their wholesale and retail customers, will continue to fight the last war and be as ineffective as the outmoded generals.

The Last Apple Wars
In speculating about the shape of the next apple wars, it is also important to recall the major elements of the recent past apple wars.

Retail Consolidation
On the demand side of the apple industry, the most notable development of the last few years was the consolidation of purchases in the hands of a few mega-retailers. These mega-retailers now employ a number of different brick and mortar formats including traditional grocery supermarkets, multi-product supercenters, upscale formats, discount stores and convenience stores. In each of these formats they have been meeting greater challenges from single-format specialists like Costco and Whole Foods.

In the retail shakeup now under way, there is a mad scramble going on to realign operations across formats and across countries. Even the three largest chains, Walmart, Carrefour and Tesco, have been frantically juggling their assets around the world.

On the plus side for the apple industry, the present situation has led to excess retail capacity in many countries, so retailers needed to keep their shelves filled with product. On the negative side, a few buyers have gained excessive influence as gatekeepers of those shelves. They have been placing increasing demands on their suppliers, (1) on traditional attributes like quality, packaging, price and delivery terms, (2) on traditional leverage points like slotting fees or pay to play fees, so called "hello money", and also (3) on newer attributes like traceability, energy efficiency, labor relations, social responsibility, etc.

Retail Fragmentation
However, the consolidation of the mainstream grocery business is starting to be eroded by various alternative food channels. Food is increasingly available in farmers markets, drug stores, dollar stores, and other non-food retail establishments. While none of these formats are large individually, they are cumulatively eroding the share of visits to, and food sales in, the mainstream grocers.
Another growing threat is coming from online grocers. These avoid the costs of maintaining expensive retail premises. Orders can now be placed from anywhere at any time. For produce, online retailers have developed rating systems that alert the customer to the quality of product available. As their volume increases, economies of scale will make online retailers even more competitive. The more customers they can attract, the more efficient their logistical systems become and the lower the costs of each delivery.

Ubiquitous coffee shops will also become important purveyors of produce snacks. This is a natural business extension for companies like Starbucks that are already in daily contact with an affluent, health-conscious clientele, the same folks who are key consumers of fresh produce.

**Transformed Shoppers and Shopping**

The food shopper is also changing. While the traditional housewife-mother remains the dominant grocery shopper, other persons are doing more and more of the grocery shopping. Employment and earning potential for women has increased faster than for men, so there are more house-husbands taking over housekeeping and shopping duties.

Young people are delaying having families, so there are more single male and female shoppers. As old people live longer, there are more single and two-person empty nesters. The recession has also brought many adults back into the parental household. Divorce and remarriage are also altering households. There are more single-parent families, primarily headed by females, and more blended families with assorted children from current or previous marriages. Households are no longer largely conventional in makeup. They now come in myriad different formats.

Technological advances have overnight wiped out, not just industries and jobs, but more importantly, professions. Many people in middle age are finding themselves struggling to go back and rebuild their careers in new fields. Some of these lack the educational background or the flexibility to make the change. As a result, many once solid households have been forced to drastically reduce their standard of living, and now struggle to stay financially afloat.

Not alone are the primary shoppers changing, but the preferences of those for whom they shop are becoming increasingly individualized. Children are becoming more assertive in their preferences at an ever earlier age. The primary grocery shopper has ever less discretion in purchases because of the need to accommodate the different preferences of household members.

**Transformed Products**

The products available on grocery shelves are in a continual process of transformation. Even as basic a product as yogurt now comes in different formulas, flavors, sweeteners, pack types, low or no fat, organic, etc., etc.

The apple industry is very familiar with this phenomenon as the number of open apple varieties, club varieties, pack types, sizes, organic or IPM versions, etc., has proliferated. It is an increasing challenge for the primary shopper to make apple selections that will best match the different needs of household members, and for the retailer to choose the product mix that will best satisfy widely disparate shoppers.

However, product transformation in fruit is a hazardous undertaking. The cost and the length of time needed to develop a distinctive new apple, pear or sweet cherry variety, is many times that of introducing a new yogurt flavor or a new yogurt pack. Too often, the new fruit variety remains
indistinguishable to retailers and consumers, and makes no net addition to fruit demand. In addition, withdrawal from the market of unsuccessful varieties can be a prolonged and costly process for growers.

Advances in genetic understanding have shown promise of speeding up the introduction of improved, new apple varieties. However, there is still a huge chasm between the constraints on breeders and the needs and wants of marketers and retailers.

**Transformed Influences on Consumers**
A sequence of advances in technologies have transformed the influences on consumers over the last thirty years. The effects have been particularly influential with younger generations.

The popularization of the personal computer, and development of consumer-friendly programs enabled those without computer training to do writing, accounting, desktop publishing, printing and online communication. The plunging costs of telecommunication, and hefty advertising revenues, allowed the internet to expand around the world and transformed personal and business communication.

The emergence of the Google search engine in 1998 made access to the world's store of information free to anyone who took the trouble to search. Sites like Wikipedia emerged to feed consumers' insatiable demand for reliable (but free) information on any topic.

Improved wireless communication meant people were no longer place-bound in order to communicate. Mobile computers could be linked wirelessly to the global internet. Advances in miniaturization allowed pioneering companies like Nokia and Blackberry to bring smart phones to the affluent, and enhancements by Apple and Samsung have made mobile phones almost universally available.

Social media, such as Twitter and Facebook, now allow over a billion users to communicate via cell phone with close friends, or with the entire world, on anything from personal trivia to serious messages. Governments, organizations, or corporations with large advertising budgets, can no longer control the "story" they wish to convey to voters, constituents or customers. Huge groups of individuals can now talk back anonymously on any subject or any product.

And, communication technology is not standing still. Giants like Facebook, Google, Apple, Microsoft and Samsung are in a battle to see which can provide a single integrated link that will allow businesses and consumers to access the media of their choice 24 hours a day. Regardless of which giant wins this battle, children will continue to spend more time in the new media world, and less within the socializing influence of family, neighborhoods, peers and schools.

**Apple Industry Struggles to Have its "Story" Heard**
The apple industry, like many others, is struggling to control the "story" it wants to be heard - topics like the many different apple choices that are now available, or the numerous health benefits of eating apples. Apple firms are experimenting with using the internet, web pages, blogs and social media to get their story across to a public with an ever shorter attention span.

However, it is still not clear what scale and what approaches are needed to be effective in cyberspace, that is, how best to have one's story heard and to trigger positive responses in the marketplace. Much experimentation is now under way in the produce industry, but no resolution is in sight.
The Next Apple Wars
The next apple wars will be fought over consumers that are increasingly diverse and demanding, through retail food markets that are increasingly fractionated, to consumers that are increasingly picky and faddish, and are being pulled hither and thither by a cacophony of messages from diverse media.

Progressive apple firms need to be asking themselves how their own operations need to be structured, what sort of personnel they will need to employ, and what sort of supportive industry organizations they will need if they are to fight these new apple wars effectively.

The first step in any redeployment is recognizing how the battlefield, the contesting armies, the target customers and the communication systems are changing. Given the rapidity of change, it will not be enough to react after the fact. The prize will go to those who can best anticipate the changes and get an advantage in preparing for them.