CANADIAN Grocery Retail Guide

SECTION 12

Account Maintenance - How Not To Be Category Managed Off the Shelf

Saskatchewan
GROCERY RETAIL & FOODSERVICE
VALUE CHAIN INITIATIVE

Adapting to Consumers Demands and Capturing New Market Opportunities

Canada

Now that a product is finally on the shelf - it has to stay there. Approximately 10% of all the products in a food store are replaced each year. Ninety percent of new food introductions fail to gain a foothold in the market and are replaced. Learning how to avoid being delisted or managed off the shelf is critical for the survival of a small company.

Why new food products fail:

- Lack of distribution
- Lack of promotion
- Lack of perceived value by the consumer
- Lack of differentiation or innovation

Successful product brands typically:

- Are targeted at distinct market segments
- Have clear and relevant points of differentiation
- Have connections at the emotional level with the customer
- Understand consumer needs and trends
- Are always innovating and refining

New vendors and small companies are the most vulnerable to being "managed off the shelf"; this can happen for a number of reasons but the most common reasons have to do with a lack of perceived or actual performance of the product or program by the retailer. However there are a number of basic steps that can be taken by a food company of any size to protect their position on the shelf. These basic steps fall into three categories:

1. Category Management
2. Consumer Focus
3. Trade Relationships

Category Management

Category Management is one of the key elements in a company's strategy to stay on the shelf. One reason that food products get managed off the shelf is that there is often a lack of understanding by new companies and a lack of focus by even experienced food companies on the necessity of constantly working to "differentiate" their products from their competitors.

The lack of ability to stake out a position in the consumer's mind leads to a lack of perceived value in the product by the consumer. This lack of perceived value will inevitably lead to a decline in sales and an opportunity for a competitor to claim the retail real estate formerly held by that product. Category management will assist a company in developing their products points

of differentiation and improve the products perceived value by assessing the competitor's products position on the shelf.

The second reason for a products failure at retail is a lack of retail space or real estate or loss of that real estate in the store. Real estate is usually lost due to a lack of delivery which, in turn, leads to poor shelf performance and a lack of repeat orders. The cycle then repeats itself until the product is either delisted or the company relines the product at retail.

Some competitors may undertake to mange the shelf by "stealth" that is to "detail" the store shelf on a frequent basis and move a competitors product to a less favourable location.

On some occasions sales are affected by incorrect tag prices on the shelf that are not noticed by a company until it is too late. In some instances a product may be moved to make way for a competitor's promotion or new product offering.

Diligence and persistence in monitoring the shelf by both the company and their value chain partners are the keys to staying on the shelf.

Shelf Placement

Retail is all about capturing and holding real estate. Retail sell through is directly influenced by a products shelf placement and location in the store. A product with high exposure and multiple facings per stock keeping unit (sku) has a significantly better chance of capturing the consumer's attention than a product with limited facings in a poor location.

To stay on the shelf a product must actually be visible on the shelf. Visibility is a result of packaging, point of sale material, promotions, the number of facings, the height of the product on the aisle; the location of the product on the aisle to capture boomerang shoppers; the location of the aisle and product categories that support the product.

All food companies should closely monitor as many of the key stores as possible where their products are carried to make sure that they are well positioned on the shelf. It is always a good policy to work closely with store personnel to maximize product placement.

Facings

A new product with only one facing on the shelf can often result in poor sales as the consumer misses the product in that 3-5 seconds that most consumers spend in scanning the shelf for a product. The objective of a food company is to have as many stock keeping units as possible and as many facings per sku as possible on the retail shelf.

As previously mentioned, a company, and their distributor or broker, should work with the store personnel to increase the number of facings on the shelf. Many companies practice "stealth placement" where slowly but surely the number of facings is increased on a monthly basis. It can be as simple as doing a "mini-reline" on a crowded shelf.

Repeat Order Monitoring

Companies should protect their products shelf space by monitoring the repeat orders that come from any one store. If the repeat orders are delayed or not issued on a regular basis then there is a good chance that the product orders were overlooked or there is a problem with the product at retail. If no sales or limited sales are registered for a product then it is often assumed by store management that the product is not selling rather than the fact that no inventory has been ordered. The result can often result in a delisting of the product by store management.

Consumer Focus

Many companies lose sight of their end customer over time. This loss of understanding as to who their customer is can be a result of many things, not the least of which is the day to day activities involved in running a food company. Companies get too busy to focus on the consumer. There is no easier way to get managed off the shelf than to lose focus of your consumer.

A food company's objective is to become a "destination brand" in the consumers mind. The brand is so strong that loyal consumers are willing to switch stores or make a special trip just to buy it. Such brands are difficult to replace since many consumers are unwilling to accept a substitute. However less than 1 in 3 brands in a product category are true destination brands.

The following have proven to have an impact on turning an ordinary brand into a destination brand.

Innovation

Innovations in product formulations (less fat, less salt, more fibre, local ingredients, natural, pure, less sugar, omega 3), refurbished packaging (green, recyclable, less packaging, easier to open, easy to use, ready to cook) and new and innovative brand extensions can create a buzz around a brand for both the retailer and the consumer. Capturing the consumer's attention with new products or new product delivery systems not only lead to increased sales but to the capture of more real estate.

Food companies that fail to innovate on a regular and consistent basis will invariably lose market share to innovative competitors and ultimately they will cease to exist. There are over 40,000 new food products introduced around the world each year. Each product is looking for a place on the shelf and each product can replace an existing product that does not offer the same perceived value as the new product.

Going to the Consumer

Develop a web based strategy to connect directly and build a relationship with consumers. Products do not get managed off the shelf if consumers come in to the store and

frequently asked questions about products; work with the staff to increase both their product knowledge and top of mind awareness about your product.

In store visits to talk to staff, web sites, staff PK sessions, and information brochures are but some of the methods of getting product information out to the store staff and consumers.

request the product or the brand. Social media and web sites can be very effective in maintaining and building a shelf presence.

In-Store Demo's

In store demos are very important in generating sales through product awareness and demonstrate a commitment to the product at the store level. The demos allow a brand to connect directly with a consumer. The trick is to get the right feedback in order to revise or change a package or product if necessary.

In-Store Point of Sale

The purpose of the POS is to create and maintain brand and product awareness at retail. The higher the product or brand profile the lower the odds of being managed off the shelf. High profile brands or products are easier to find at retail and have a higher "impulse" purchase rate at retail. Remember up to 70% of food purchases at retail are impulse buys.

Product Knowledge (PK) Programs

Programs that increase both store staff and consumer product knowledge can be very effective in increasing sales. Store staff are

Store Visits

Once the product is on the shelf the real work starts. Store visits are critical in building up support for the product at the store level. In a large store it is wise to ensure that the store manager knows that the companies' representatives are in the building on a regular basis. During store visits it is important to be positive and support your broker, distributor or common carrier and deal with problems ASAP.

Trade Relationships

Trade relationships are a vital part of the shelf sustainability program. In many cases, products have been given a second chance or an extended time to develop a consumer base due to trade relationships. When possible, these relationships should be developed and nurtured as they form the basis of a food company's value chain.

Broker, Distributor Contact

A company should stay in weekly contact with their broker or distributor. A quick phone call (try to call at the same time each week) to talk about sales, opportunities, shipments, fill rates etc. goes a long way in keeping top of mind awareness. Develop a schedule of update

meetings to go over plans, review sales against plans, formulate distribution strategies and discuss new product opportunities or ways to refresh the product.

Distributors may sell over 10,000 different products and it is important that a company's products are not "lost in the assortment".

Problem Resolution

If a problem arises, react quickly and positively in arriving at a solution. Retailers, brokers and distributors quickly lose interest in a "problem line" which is a line of products where the issues are not addressed immediately. A product line will be ignored, with the attendant results at retail, if the lines reputation for problems begin to affect a distributor's or broker's relations with retailers.

Price Stability

Retailers typically set or prefer to set prices for specific periods of time. Fluctuating prices can be a significant management issue given the number of sku's (40,000 in a typical large store) they carry. In many instances the retailer will refuse to accept a price change in mid-season unless there are extraordinary reasons to justify the price increase. Depending on the category, most major retailers will only accept price increases once per year.

Critical Success Indicators for a Vendor

Retailers, regardless of size and market position, have a general set of criteria that is normally used to assess the performance of vendors. The criteria addresses the fundamental requirements for success at retail with the result that failure by a vendor to meet the criteria will almost certainly lead to a delisting of products and the dreaded DNR - "do not reorder"- designation that is applied to "delisted" or discontinued items.

Delivery, Delivery, Delivery

The fundamental principle of successful retail sales is a full shelf. The retail adage "you cannot sell from an empty shelf" reflects these fundamental criteria. Major chains now require that all vendors deliver a minimum of 96% of every order on time. Most majors now monitor each order versus the past practice of averaging the deliveries over a week, month or quarter.

Many retailers will impose fines for late delivery and then delist the product if the problem persists. The retailer may even remove the vendor from the vendor list if the vendor has only one product listed. Depending on the retailer, a new listing fee and time (up to a year) may be required in order to get a product relisted.

A vendor must track the "fill rate" on each order, on both orders filled internally and distributor orders. Obtaining the fill rate from distributors may be difficult but without this data you are helpless to improve your performance or respond to an issue at retail.

When working with a distributor beware of order pick slips that are adjusted to inventory levels so that it appears that all orders are filled 100%. The order fill rate must be matched against the original order in order to have an accurate picture of the fill rate.

A fill rate of 100% of each order on time, every time should become part of a food companies culture. Vendors with high, on time, fill rates are considered more favourably than those with poorer on time fill rates. It is very important to be perceived as a reliable vendor. Retailers and distributors will give reliable vendors slightly more latitude in regards to introducing new products, returns and programs.

On time delivery also means no shorts, no excess product, no defective product and no product substitutions.

Retail Sales

Movement off the shelf is the primary indication of success at retail. It is important to remember that not all categories of product sell at the same rate off the shelf. For example nationally branded canned tomato soup will turn quicker than kosher pickles. Fresh milk will turn at a higher rate than milk powder.

Retailers look at gross sales and sales per square foot as indicators of success. Wal-Mart has sales per square foot of approximately $500 while Loblaw's has sales of $585. On the other hand Safeway has sales of $150-$200 per square foot. As a matter of interest, the average 7-Eleven has sales of $325-$400 per square foot.

Retail Margin

The gross margin that retailers normally need to obtain in order to operate will vary by operation but is usually in the range of 30-40%. The retailers have target margins by category. A margin that is acceptable in one category such as fresh milk or bread may be unacceptable in another category such as organic coffee due to inventory turns.

The vendor must ensure that the wholesale price to the retailer meets the operating margin requirements for that category of product. If not, then the product may not be purchased or replaced with a competitor or house brand (usually more profitable than national brands) that will deliver the required margins. Retailers will often state that they need a specified number of points for that product. The vendor must clarify if the points refer to "mark up" or "margin". A misunderstanding could prove problematic.

The retailer will sometimes accept a lower margin if the turns are high. In this case the higher turns will compensate for a lower margin as the increased total margin and sales dollars results in operating expenses divided by a larger sales number. Products of this nature become "overhead eaters."

Stock Turns

The number of times that inventory of a product is replaced over a period of time is referred to as the "turn". The higher the turn, the greater the sales dollars generated in a period of time and the greater the potential profitability.

Retailers look at turns as a key indicator of a products success relative to other products on the shelf in that category. If a product has good turns and a good margin relative to the other products on the shelf then the product will be viewed favourably.

Turns are also a function of inventory availability. If the product is regularly "out of stock" then the turns will be inflated. The retailer will then look at delivery levels and fill rates as a solution. If the shelf is empty too often then the retailer may delist even a good selling product in order to maximize the sales and profits per square foot in a category.

Market Support – Vendor Agreements

Market support can come in the way of advertising to create "pull" off the shelf, in-store taste testing; end-cap events; sales guarantees; program fee for advertising and flyers and in-store specials. The vendor that reacts quickly and efficiently to retailers needs will often be given the opportunity to succeed when products with a similar sales record will be delisted.

Gross Sales per Square Foot

Retailers will often target a specific amount of gross sales per square foot in a product category. Product lines that do not produce those sales will often be targeted for replacement. Usually tied into the margin generated by a product, a retailer will look for products that generate both the highest sales per square foot and the highest points.

Year over Year Same Store Sales

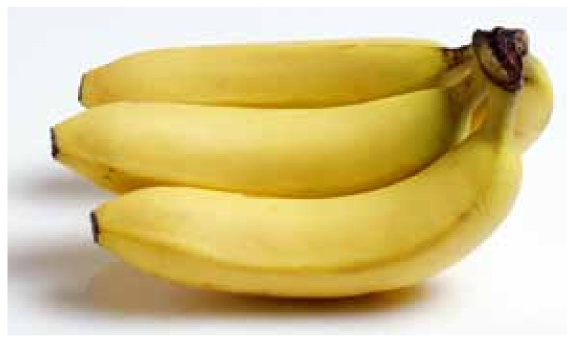
One of the most critical benchmarks for a retailer is year over year same store sales for stores that have been open more than a year. Product lines that continue to increase the number of turns per year and generate the targeted points will not be managed off the shelf. Products that do not – will be delisted.

How A Value Chain Can Help You Stay On the Shelf

The partners in a company's value chain bring resources and expertise to the table that can mean the difference between staying on the shelf or being managed off the shelf. The value chain partners can give a company multiple sets of eyes and ears at retail and in the trade. The partners usually have a vested interest in ensuring that another partner succeeds and can be more willing to share vital information.

1. Increased communication on markets, costs, trends, competitive strategies

2. Differentiated product/service options - innovation to stay ahead of competitors



3. Cost control orientation – share savings can be reinvested in the marketplace
4. Consistency of supply through the development of strong relationships
5. Reduced risk in investment of equipment, marketing and processes
6. Increased margin capture opportunity
7. Increased operating efficiency and process controls
8. Increased cost control due to increased information flow
9. Improved technology and skill transfer within the value chain
10. Collaborative innovation process – staying ahead of the competition and house brands

Summary

In today's fiercely competitive retail food environment even national brands with deep pockets have products that are delisted in favour of competitors and house brands. House brands represent approximately 18% of all food retail dollar sales in Canada.

To stay on the shelf, small and medium sized food companies must use all the resources at their disposal. It only makes good business sense that these companies form realistic value chains, based on communication and trust, in order to combine their areas of expertise and competitive advantage.

Even some of the world's largest food companies are forming value chains to access innovation and expertise in areas that do not exist in the corporation. The market is moving so quickly that speed to market with innovative products is now a competitive advantage. Speed to market for smaller companies can be achieved with a network of partners that have a mutual interest in the outcome. Value Chains - they only make sense.

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The Agriculture Council of Saskatchewan (ACS) Inc. has developed this electronic guide for the Canadian Grocery Retail Industry as part of its continuing efforts to support the agriculture and agri-food industry and develop the capacity and tools for food growers and processors to enter the Canadian Grocery Retail Industry.

The purpose of the guide is to provide food growers and processors with a better understanding of the Grocery Retail Industry and how to tap into business opportunities within it. ACS has engaged Ackerman & Associates, consultants to the Grocery Retail Industry, to help create this powerful reference tool. Ackerman & Associates is an alliance of senior consultants focusing on business strategy support – research, value chain design and implementation – for the Grocery Retail Industry.

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