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Holistic Fresh Item Management: Store Operations

Collaborating with Retailers to Create World-Class Execution

Contents

1 The Opportunity

There is typically a 2.0–3.5% opportunity gap (200–350 basis point) in net contribution through lost sales, excessive shrink and ineffective labor management.

"Virtually all grocers are following the same path to being different. Just fewer than 99 percent reported using perishables, prepared foods, Deli and Bakery items to stand out in a crowd." – Food Marketing Institute[1]

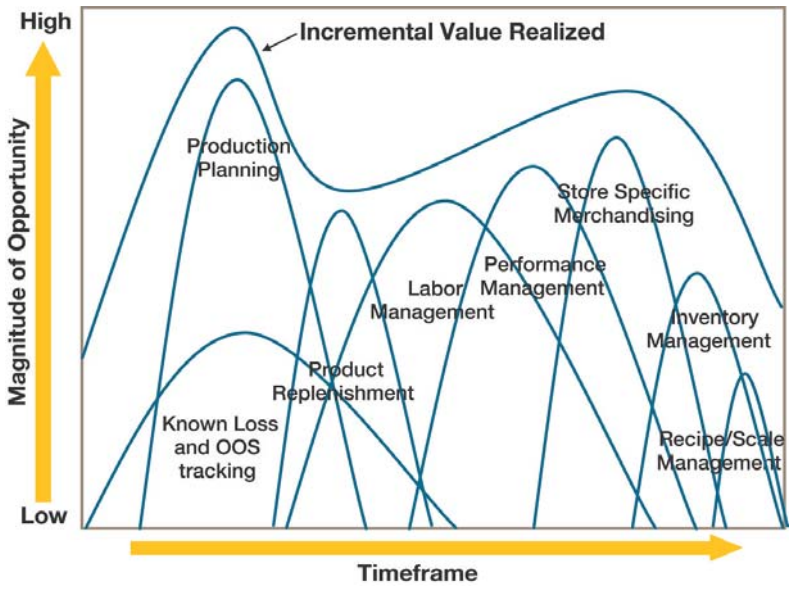
Perishables are no longer relegated only to the store perimeter. Today's consumers and grocers place a premium on fresh merchandise, making it the single greatest traffic driver and differentiator in grocery retail. High quality meat, produce and prepared meals have become strategic wedge offerings for most grocers, presenting them with a tremendous opportunity to separate themselves from the also-rans. According to Michael Sansolo, SVP of the Food Marketing Institute (FMI), "Perishables remain the ultimate point of differentiation for shoppers and a strong presentation can get you a loyal shopper base and a strong group of shoppers using your store as a secondary source. And once you have them there, sell them on convenience and meal solutions and you can keep them.[2]"

Fresh merchandise presents both an opportunity and a challenge for food retailers. Perishables represent 30% of sales for the typical grocer, but require a disproportionately high level of sourcing and merchandising effort since the products often have a very limited shelf life and come in variable pack sizes. Also, in combined perishables departments there is typically a 2.0–3.5% opportunity gap (200–350 basis point) in net contribution through lost sales, excessive shrink and ineffective labor management.

Retailers recognize the importance of FIM practices, but many still use manual processes to handle the workload. There is now FIM technology available that promises improved demand prediction engines, robust production planning capabilities and comprehensive recipe management, but integrating these tools into existing technology infrastructure and changing internal processes in order for the new functionality to work can be a daunting task for retailers (see figure 1 for a representative approach).

With several successful fresh item management program implementations, Capgemini has increased retailer sales in excess of 2% chain wide, leading to tens of millions of dollars in bottom line improvement.

Figure 1: Modular Design Approach for Perishables Food Retailers



Source: Capgemini

With several fresh item management program implementations, Capgemini has increased retailer sales in excess of 2% chain wide, leading to tens of millions of dollars in bottom line improvement. Payback is typically in the six to nine month range and leads to decreased shrink, increased sales and increased differentiation in key consumer categories. Successful perishables merchandising initiatives connect core customer desires with exceptional retail execution and effective technology deployment.

This whitepaper takes a holistic look at perishables (fresh item) store operations. It examines perishables management from many angles and provides retailers with valuable insight into strategic opportunity areas, such as labor management, production planning and replenishment and loss analytics. This whitepaper will propose approaches to many perishables-centric issues and will help retailers compete against new entrants and incumbents who are already using fresh merchandise as a differentiator and a mechanism for gaining market share.

Out-of-stocks in perishable departments are largely disguised through presentation shifting (spreading out of excess adjacent product) but can vary as much as 30% from targeted variety lists.

We recommend establishing store-specific/department-specific "Standards of Readiness" to clearly communicate what merchandise should be ready at what time/day and what the related effort is.

2 In-Store Production

"Pile it high and watch it fly" may work as a mantra in center store. But in the perishables areas, retailers need a deeper understanding of sales movement, production, and shelf life. Production planning for perishables must take several factors into account:

- Fresh product in Produce, Meat, or Deli has to be displayed as close as possible to its time of sale to maximize profit yield.
- Out-of-stocks in perishables departments are largely disguised through presentation shifting (spreading out of excess adjacent product) but can vary as much as 30% from targeted variety lists.
- The majority of grocers are not leveraging point of sales (POS) movement in their production decisions but instead rely on department managers to "know what sells."

Fresh categories typically make up 30% (or greater) of total store sales but account for over 50% of typical inventory loss. Add the complexities of consumer demand to these statistics and you have a strong case for using advanced planning tools to aid perishables production decisions.

Capgemini has a strong record of assisting fresh item retailers with their production planning implementations, leveraging a leading practice approach to drive improved value.

2.1 Standards of Readiness

Matching staffing resources and product to sales opportunities is the key to improving sales and limiting known loss. Having resources available when needed will also enhance the customer service experience. Before a retailer can effectively leverage advanced production planning software, it is critical that the retailer understands what items are expected by target customers as well as the labor and sequence of activities needed to properly produce those items.

Individual stores within chains have differing demographics, so it is simply not feasible to mandate chain-wide time standards for certain product-related activities. Such decisions can only be made after analyzing sales data store by store. Rotisserie chickens might be saleable at 9AM in a store near a three shift factory, but a store in a heavily residential area will likely not see rotisserie sales until early afternoon.

We recommend establishing store-specific/department-specific "Standards of Readiness" (see figure 2) to clearly communicate what merchandise should be ready at what time/day and what the related effort involves. For large retail chains, to limit complexity, readiness standards can be implemented on a store cluster level (see Capgemini's whitepaper on Integrated Planning & Execution[3] for more information on store clustering).

Figure 2: Standards of Readiness Example

Activities	Start	Finish
6:00AM Duties		
Cull case; block and straighten entire department; Make all necessary reductions	6:00 AM	7:00 AM
Inventory all beef core items	7:00 AM	9:00 AM
Prepare first grind of beef to meet anticipated demand	7:00 AM	9:00 AM
Cut and Fill case with cut and packaged fresh meat items	7:00 AM	9:00 AM
Cut, package and fill pork, beef, lamb and veal offals as needed	7:00 AM	9:00 AM
Fill case from cooler to stock advertised items	7:00 AM	9:00 AM
Fill case with pre packaged fresh/branded poultry	7:00 AM	9:00 AM
8:00AM Seafood Duties		
Skim/sanitize/add ice show case	8:00 AM	10:00 AM
Set up service case	8:00 AM	10:00 AM
Fill self service case	8:00 AM	10:00 AM
10:00AM Duties		
Complete Morning Checklist	10:00AM	12:00PM
Cycle cut to fill all fresh meat displays	10:00AM	12:00PM
Cycle cut and fill pork, lamb and veal variety as needed	10:00AM	12:00PM
Fill cooked and prepared meat section	10:00AM	12:00PM
Fill smoked meat section	10:00AM	12:00PM
Block, straighten and fill processed meat case	10:00AM	12:00PM
12:00PM Duties		
Block, straighten and fill frozen meat and poultry displays	12:00PM	1:00PM
Continue to grind and cycle cut fresh meat displays to balance production with demand	12:00PM	3:00PM

Source: Capgemini

Standards of readiness are especially important for the sales leaders within each category. Sales leaders, or core items, are those products that category management has decided should be featured daily. They can be chosen based on sales or on category management expertise. A core item can be an obviously high velocity product or it may be a newly introduced product which the Category Manager believes has high profit potential. Typically, it is the merchandising department that makes the final determination on core items.

Once identified, core items are plan-o-grammed into an appropriate spot on the sales floor. Finding a logical, permanent home for each core item allows customers to find it and, as importantly, allows production associates to easily identify low stock conditions. It also serves as an integral method to maintain variety and ensures execution of category management goals.

Shelf designators are one way to help the process. They can be labels, tags or signs generated in a number of ways and affixed to the table or case as required. The technology exists today to create color-keyed, personalized labels that can be informative for sales floor associates (e.g., stock six packages in the morning; maintain two packages at all times). Shelf labels can also be decorative and attractive and provide helpful product information for customers (e.g., specialty cheese labels that provide country of origin and wine pairing recommendations).

2.2 Production Planning

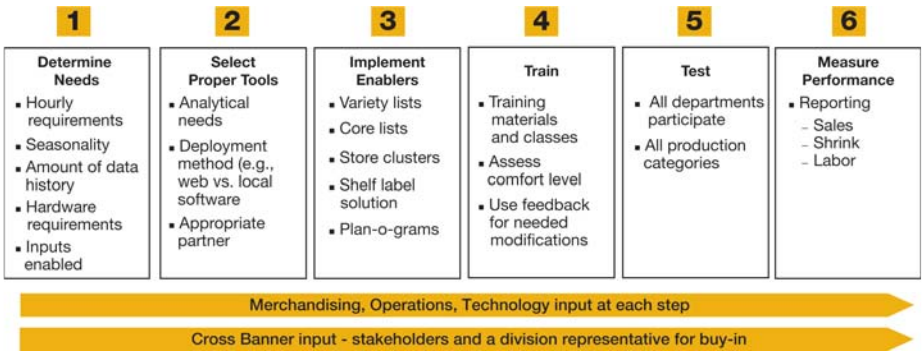
Production planning tools and software provide production guidance in the perishables departments by using POS movement and advanced analytics. These tools provide a look at production levels by day of the week and even time of the day. Some tools make time series forecasts based on POS history. Other, more robust, applications use a variety of causal variables (e.g., promotional

All production items should be plan-o-grammed and shelf labels placed on all production inventory locations…[to] curb the desire to face-over holes with over-produced/under-sold product to maintain a full shelf appearance.

history, seasonality, price) to analyze trends and account for promotional lift within a targeted department.

A holistic production planning program is more than just software, though. Before even selecting the software, a careful analysis of the current state must be undertaken to identify technology, process and people requirements and highlight shortcomings (see figure 3 for our approach to production planning projects).

Figure 3: Production Management Steps in Model Store



Source: Capgemini

Once the appropriate software is selected, the next step is to implement a series of enablers to ensure the success of the production planning. First, the items that will appear on the production planner must be identified. Some retailers choose to start with a smaller subset of products, usually core items (see section 2.1), in order to keep the process more manageable, while others choose to rollout to all in-store produced items. In either scenario, we recommend implementing production planning across all fresh departments simultaneously, resisting the urge to go deep in just one department. The "all" approach gets individuals trained in every perishables department, raising the bar in expertise across the board. Our experience also shows that by touching all departments at once, value can be attained much faster and retailers can cut down on rollouts that can take years to fully implement.

A second enabler is detailing standards of readiness for all production items (see section 2.1 for more information).

Third, all production items should be plan-o-grammed and shelf labels/signage placed on all production inventory locations. Shelf labels assist store operators in identifying out-of-stocks even when holes on shelves are faced over to maintain a full shelf appearance. Out-of-stocks should be managed not by facing over holes but with more production.

Production frequency is also important. Many items will benefit from a twice daily production schedule. The second production of the day can be used to regulate the quantity of product already on the sales floor while also ensuring freshness and quality. Multi-day coded items benefit from planning production cycles around staggered dates. An example would be baking a different variety of cookie each day of the week, thus creating different sell-by dates and staggering the production load.

An ideal production planned environment will coordinate human resources, production cycles and shelf life to create a variety of fresh products while optimizing sales potential and incurring appropriate known loss.

Successful production planning practices also include:

- Corporate support – the planner is their tool as well as the store's
- Creating a culture that understands the sense of urgency when addressing out-of-stocks in core items
- Educating Operations to view plan-o-grams not as a tool that creates out-of-stocks but as one that identifies out-of-stocks
- Shifting from a production mentality that produces once per day to continuous production and replenishment
- Displaying historical sales data alongside sales plan items to use as a reference for previous sales activity
- Production "build-to amount" that satisfies a requirement to sell through, sell more, not sell out

2.3 Recipe Management

Recipe management systems offer disciplined operators the ability to gather detailed production and inventory reporting in a real-time manner. These systems can help department managers immensely in ordering, assist in identifying inventory issues and automatically create inter-departmental transfers. But, like most complex systems, they require extensive thought and planning during implementation as well as sufficient dedication to data collection, data maintenance and training to ensure that these applications provide an accurate picture of production and inventory levels. These applications can quickly turn into a poor investment and a little used tool if management and staff lose the ability to trust them.

Recipe management systems require that each produced item be broken down into its component parts. The parts are identified in the system either by their net weight as used or as a count figure. Pricing and margins are predicated on the use of a specific set of component parts. A great example is a deli platter. The total quantities of meat and cheese used on the platter are removed from the Deli inventory. The lettuce leaf underliner is also assigned a value and, at the end of the month, the total lettuce leaves used by the Deli are credited back to Produce, thus ensuring compliance with inter-departmental transfers. Garnish and supply costs (the cost of the platter, et al) are also given a value and respective inventories from which they are sourced are adjusted. Any substitutions, alterations and variances in weight at store level will diminish the viability of the system.

The system "knows" a platter is made up when a scale label is produced, usually from a scale designated for production purposes. Any scale labels produced in error should be voided out of the system to maintain integrity of inventory. The deli platter scale label is scanned out on the front end, completing the cycle. Exact margins are created and identified. If for some reason, the scale label is not scanned, the system will view the item as known loss.

At month-end inventories, all produced items appear on the inventory recap and are balanced by the total sales of the respective PLU. These systems are able to provide item-specific movement of inventory flow in perishables departments, making the system ideal as a prediction and ordering tool for raw ingredients.

2.4 Yield Management

In order to monitor and maximize the assortment and profitability within the perishables departments, it is imperative to manage the yield that results from production items. This is typically true in the Meat department where large cuts of beef and pork are ordered by the store and then must be further processed to "yield" the consumer packages that are placed in the display cases for sale.

Most leading scale systems utilize yield management functionality on the menu screen, allowing the user to record key pieces of information which then become part of the label displayed on the package.

This information coupled with the POS data allows merchandisers and supervisors to analyze the production habits of individual cutters and compare them with the sales and loss of their department. Poor habits can be identified and corrected, resulting in improved sales and lower shrink.

These yield tests are typically conducted on a quarterly or annual basis for seasoned meat cutters but should be conducted more frequently when gross margin indicators are slumping or when a new cutter is hired. A similar process can be used for Produce, cut fruit, salad bar and other yielded categories.

2.5 Conversion Strategies

The ability to minimize known loss in perishables by converting an out-of-code or dated product into a new saleable form requires careful thought. At no time should the act of converting a product violate the principles of food safety, the integrity of the labeling process, or the overall marketing strategy. In most cases, conversions should only take place when there is an unforeseen circumstance. They should not be developed to mask sloppy management or as a means to mask inefficient production planning systems. The adage "your first loss is your best loss" will usually prove to be true.

Merchandising strategies can be maintained during conversions. For instance, certain items from your Service Meat case can be saleable for one day and then trayed for sale in the self-service case. This strategy works to ensure good rotation and fosters a sanitary Service Meat case as well.

The same sort of scenario works for Service Deli salads. Salads spend a day or two in the case and are then packaged for a grab and go sale. This eliminates mixing batches (with different sell-by dates) in the salad case and creates impulse items. Effective also in Deli are cheese ends. They can be cubed and sold as snack trays, as long as all labeling and ingredient guidelines are met.

In Bakery, jumbo cookies can be combined with "butter cream" to create cookie sandwiches (the icing refreshes the cookie by adding moisture) and cake ends or trim can be combined with puddings to create parfaits. Produce can be turned into kebobs, sauté, or Asian blends for added value.

Typically the additional labor and product required for conversions are unrecoverable expense, so conversions should occur only infrequently. They can also increase options in the store to such a degree that it might be difficult to maintain labeling and ingredient integrity. These issues become even more magnified when dealing with potentially hazardous foods like antipasto salad in the Deli, meatloaf mix in Service Meat and damaged fruit for a cut fruit program.

The only way to truly measure loss is to look at total gross profit leakage which includes not only inventory loss but also controllable losses in cost, price and recoverable merchandise.

3 Loss Analysis

In no other set of departments is shrink such a factor as with fresh departments. Perishables typically make up over 50% of a grocer's overall shrink. Our view is that shrink should not simply be minimized, but rather, acceptable loss targets should be set for each department with tolerance bands both above and below it. Shrink that is too low typically results in high stock-outs while high shrink typically results in unacceptable inventory/gross margin loss.

Shrink is not measured consistently among retailers. The only way to get a true measure of loss is to look at total gross profit leakage, which includes not only inventory loss but also controllable losses in cost, price and recoverable merchandise. At Capgemini we refer to this opportunity as profit recovery (see figure 4).

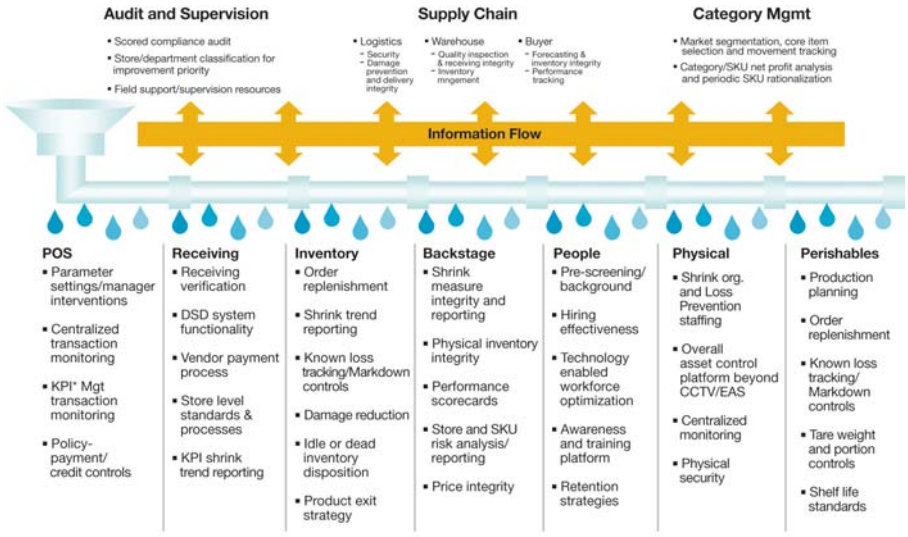
Figure 4: Capgemini Shrink View

Source: Capgemini

Capgemini also believes that shrink is not just a store issue. We would include Merchandising, Accounting, Human Resources, senior management, Loss Prevention and the entire supply chain in any effective shrink program. (see figure 5).

Capgemini has implemented shrink programs at more than a dozen food retailers, saving companies tens of millions of dollars in the process.

Figure 5: Capgemini Shrink Approach



Source: Capgemini

3.1 Known Loss Tracking

Understanding and tracking known loss is critical if you want to ensure the profitability of the perishables areas. Many retailers view shrink and known loss so negatively that it often goes unreported and undetected until an end-period physical inventory. Known loss is a self-reported number. Retailers should encourage its timely reporting and those stores with higher unknown loss should be treated more harshly than those with known loss.

The more information operators have about the specifics of known loss products the easier it is to take remedial action and avoid loss in the future. Manual reporting processes are fraught with error. It is simply too easy to manipulate the data and when that happens, management does not get a clear and accurate picture of known loss. A better alternative is to use automated systems that typically rely on radio frequency (RF) handheld units to scan the UPC or PLU and known loss information into a software application. This application then has the ability to categorize known loss into a variety of parameters: department, category, by date, random or net weight items, providing invaluable department-specific information.

Most applications allow you to run reports on a regular schedule. These reports will often help to pinpoint incorrect production standards or problems in the production schedules. They can also provide regional and corporate views of known loss. The information can be used to make a business case for discontinuing items, modifying pricing or restricting a product to a certain demographic segment. Some departments find it useful to print and post a weekly summary of the report.

3.2 Markdown Management

Short-coded and improperly replenished items can both benefit from an effective markdown program. While most grocers don't include markdowns as part of their merchandising strategy, an effective markdown program can maximize gross profit dollars when there is unpredictable consumer demand or employee error. A basic markdown technique used by many groceries is to issue a generic coupon with a pre-printed dollar off amount. But this system does not allow for any kind of

markdown data capture nor does it provide management with a real sense of what issues led to the markdown in the first place. We recommend a system that utilizes a bar code replacement.

Typically this replacement bar code is produced following a scan of the product by a belt printer. The bar code is printed with the item description, making customer switches virtually impossible. Since this is a product-specific method, it can track which items in a given cycle are reduced in price. Some systems allow a designated person at the store to decide the reduced selling price. These systems will often have the product cost available within an RF gun application. Other systems have the reduced price pre-programmed within the application as a percentage of the current retail price, which means Category Management has the say on the reduced price based on a blend of margins and costs.

Weekly markdown reports can be generated from these systems. By comparing the total reduced items sold to the total reduced items discarded, it is possible to get a better understanding of the market dynamics. For example, an item with a markdown effectiveness of 100% would suggest that all those items were sold—so perhaps they were marked down too much. More margin might have been recovered with a less aggressive markdown percentage.

Markdown management implementations should take into consideration food safety, product quality and the overall image the store wishes to portray. Having substantial quantities of marked down perishable items may make customers question the stores dedication to freshness.

3.3 Preventative Controls

Scales and POS present the greatest opportunities for fraud and errors in most store. This is especially true in perishables areas. Associates have easy access to scales and often they can modify prices or override existing prices within the system by simply going onto a service screen and inputting a new price. Margin assumptions can thus be rendered useless. Shrink and margins can deteriorate for no apparent reason.

Scale passwords and codes should not be made available to the whole store. If a store level markdown situation should arise, it should be handled by the Regional Merchandiser and the Pricing Coordinator within the store, who then control the markdown process.

Policies should be in place to ensure that products weighed on a scale are handled correctly. One such policy should be that no associate can weigh and label his own items or those of family and friends.

Scale tare weights of all containers and packages in the perishables areas should be tested frequently to ensure that they are set to appropriate levels. Manually entered tare weights should be completely eliminated if at all possible and the ability to change tare weight or pricing should be password protected.

Perishables are especially susceptible to pricing errors because a lot of the labeling and tagging takes place at the store. Unmarked bulk items and in-store produced items are frequently mispriced at the POS. Price integrity should be randomly checked at all stores with errors reported and adjusted. Excessive store errors might indicate that a more extensive audit of the store is necessary.

Our shrink indicators show there are root causes in all business areas. Therefore, we develop scorecards for all departments, with clear emphasis on: store and regional operations, loss prevention, corporate and field merchandising, other supply chain activities and vendors.

Firm POS controls should also be put in place at the checkout. For example, the ability to perform a negative sale without a manager's approval or the ability to zero-out a transaction through line voids should not be allowed. Certain register functions should also be limited. Handling all returns on one register or at the customer service area is a good example.

3.4 Detective Controls

With preventative controls in place, the next step is to institute detective analytics that aid managers in uncovering alarming trends. Capgemini typically employs a three-pronged approach to these analytics: statistical analysis, effective reporting and pointed action.

The first step, statistical analysis, is used to determine the retailer's true indicators of shrink. We get our hands on as much data as possible and merge it together into an integrated database. We then run correlations with each data element against each store's shrink numbers. We put our years of experience to work mining the data in innovative ways to find true relationships. We then analyze the effect that multiple indicators can exert when applied simultaneously. The goal is to mimic the retailer's actual operating environment—where multiple factors work together to drive up shrink loss.

During the reporting phase, we use the output of the analysis to create a resource allocation tool. Every company is trying to do more with less. To facilitate this goal, we determine the strongest indicators of shrink based on statistical analysis and then develop exception reports which give the retailer a quick view of what is driving the greatest amount of profit loss and where the worst performing locations are. These reports can typically be set up in a short amount of time and require little technology to support.

The exception reports are then used to generate a series of one-page shrink scorecards. These scorecards highlight out-of-tolerance metrics which cue in decision-makers to alarming trends occurring at a particular location. Shrink shows itself most clearly at the operations level of the business, however, our indicators show there are root causes in all business areas. Therefore, we develop scorecards for all departments, with clear emphasis on: store and regional operations, loss prevention, corporate and field merchandising, other supply chain activities and vendors.

Data and tools by themselves do not reduce shrink. Loss can only be reduced as a result of direct action. So the final step is our high-response protocol. We layer industry leading practices on top of our own experience and direct observation to create an action plan that allows the organization to take the appropriate action at the appropriate time. We tailor the action plan to the key shrink drivers for the particular retailer and we compile it into an easy to reference format so that expectations and predictable response methods can be clearly established (see Capgemini whitepaper: The 21st Century Shrink Program: Analytics, Reporting and the High-Response Protocol[4] for more information).

Labor required should be determined through workforce analysis, rationalized through the application of leading practices, quantified through engineered labor standards and controlled through workforce and task management systems.

4 Labor Management

Today's retailers are faced with a multitude of labor-related challenges, ranging from legislation and globalization to sourcing and managing labor. Labor is the largest controllable expense a retailer has and therefore it is imperative that labor is allocated and managed optimally.

Perishables areas offer a unique opportunity to engender intimacy with customers, due to considerable interaction between them and sales associates in the service areas. Having these associates well-trained and versed in your offerings is a primary merchandising component.

Many organizations view labor only from a budgetary standpoint: as a percentage of anticipated sales. In reality, there are other things that should be taken into consideration including store layout, equipment and product selection. Labor required should be determined through workforce analysis, rationalized through the application of leading practices, quantified through engineered labor standards and controlled through workforce and task management systems (see figure 6).

Figure 6: Capgemini Labor Approach

Source: Capgemini

4.1 Workforce Optimization

Workforce Management (WFM) as a system begins with an understanding of what drives labor in a retailer's specific environment. This knowledge verifies that labor can be allocated and used properly to best meet the demands of the organization and the needs of the customer. The retailer's strategic positioning (e.g., high customer intimacy, low cost leader) should be considered during this phase to verify consistency with corporate goals.

Once the required workload is determined, a study should be undertaken to ensure that labor is allocated in the most efficient manner. Through the development and implementation of leading practices, an organization can be sure they have consistency, accuracy and efficiency in all areas and locations.

Once the leading practices are in place, labor standards are developed and matched to business drivers to determine the optimal mix of employees to customers. These allotments are then budgeted, scheduled and mapped against store-specific demand to ensure that they fit the needs of both the business and the customer. Workforce Management software packages are used to prepare the work schedule.

The success of any Workforce Management approach is dependent on proper training and education and on getting the change management component right. Anytime a process affects the earning power of individuals, consideration must be shown as to how the process change will impact them and appropriate steps taken to ensure their acceptance of the changes.

Successful WFM deployments typically:

- Plan and execute appropriate, rigorous change management (e.g., communication, compliance tracking and leadership)
- Treat change management as a continuous, on-going process and not just a one-time set of activities
- Provide the right training—right tools, documentation and timing
- Institute a process of continuous improvement
- Provide timely and usable reporting information to the right people

4.2 Task Management

The value of corporate merchandising and marketing plans is diminished if store execution of signage, inventory management, and product knowledge is subpar. This is especially true in perishables departments, whose products are typically featured on page one of the circular. To ensure that strategic initiatives are properly executed at every store, many grocers are using task management software.

Task management software and associated process improvements allow the retailer to create one clear channel of communication that focuses stores on their objectives and provides real-time feedback and visibility of task compliance to line, field and corporate management.

Successful task management software deployments typically:

- Design for simplicity and usability
- Plan and execute appropriate, rigorous change management (e.g., communication, compliance tracking and leadership)
- Treat change management as a continuous, on-going process and not just a one-time set of activities
- Simultaneously undertake process improvement efforts

Because store personnel often express concerns about the increased monitoring, it is critical that they be assured that the technology is not an attempt at micro-management, but it is rather an operational tool to provide clarification regarding priorities and to empower them to do their jobs more effectively.

A corporate gatekeeper can be helpful when deploying a task management software

project. The gatekeeper serves as the control for all communications between corporate offices and store personnel. The responsibilities of the gatekeeper are to:

- Standardize corporate direction and workflow assignments for all stores
- Improve stores' understanding of all projects
- Ensure completion of all assignments at the store level in a timely and accurate manner
- Balance the store workload on a daily, weekly and monthly basis
- Focus on overall selling and service efforts with all customers
- Proactively filter and funnel information to the stores in a timely, effective and consistent manner.
- Mitigate the burden and stress on store personnel due to improperly planned initiatives

A gatekeeper allows store personnel to focus on their selling efforts and on putting the customer first.

Improper ordering accounts for over half the shrink in perishables at a typical supermarket.

5 Order Replenishment

When a customer with a shopping list of nine items enters a typical grocery, she has only about a 50% chance of finding everything on the list. Out-of-stocks result in decreased customer satisfaction, decreased customer loyalty and, most importantly, decreased overall store sales. Add to that the fact that improper ordering accounts for over half the shrink in perishables at a typical supermarket and you are looking at a $55,000 per store per year savings opportunity.[5]

The opportunity can be realized through proper delivery, receipt, maintenance and replenishment processes for perishable merchandise. While these may sound like lofty goals, they can be accomplished with a well-designed and implemented (and often low-tech) program.

5.1 Ordering, Receiving & Storage

The first rule in effective replenishment is to start with a smart order. Orders should meet anticipated sales and display requirements. Basic standards exist for perishables merchandise ordering (e.g., order perishables for no more than a three-day sell-through), but with today's consumer demand and competitive complexities, most large grocery chains need advanced replenishment systems.

Proper handling starts immediately on receipt of a new product. Perishable inventory handlers should recognize that most fresh merchandise is fragile. Even pre-packed items, like salads, can be damaged and rendered unsalable if treated like non-perishables merchandise.

In addition to verifying quantity received versus quantity ordered, pack size, weight, paid price and product condition should also be verified upon receipt. Product shelf life dates should also be checked on all fresh merchandise and short-dated products should be flagged.

Next, fresh merchandise must be stored properly. Effective store-level perishables programs require a high-level of store organization. A good sign of a department under control is an organized, product date-coded storage cooler. Storage and display conditions should be monitored regularly as should temperature controls.

Successful delivery and receiving practices also include:

- Disciplined store staff to maintain cooler rotation
- On-hand inventory updates synchronized with delivery receipt
- Never over-stacking received merchandise
- Overstock investigation after every load; overstock logs should be maintained accurately
- Reducing potential hiding places for product in the store; no product should be allowed to rest behind merchandise on the sales floor shelves
- Proactive order review; leverage technology to flag store-specific orders that exceed selected criteria on item categories or overall volume
- Effective mis-selection management
- Damage scanning and disposition

- Product separation/cross-contamination prevention
- Proper processes for inter-store merchandise transfers or DC and manufacturer returns

5.2 Perpetual Inventory Maintenance

The goal of any perpetual inventory (PI) system is to maintain accurate, near real-time inventory information so that important inventory decisions can be made. But the 2006 Proctor & Gamble retail out-of-stock report found that PI systems were typically accurate only 32–45% of the time[6]. These findings are particularly problematic for fresh merchandise where even an extra day in inventory can result in hundreds of dollars in spoilage per store. Out-of-stocks on high-visibility, destination items as a result of inventory shortages result in lost sales and unsatisfied customers.

Two methods used to maintain PI accuracy are effective cycle counting and physical inventory practices.

Successful cycle counting practices include:

- Implementing appropriate new procedures and checkout training, not simply disabling the quantity key—Without new training store associates will simply adopt other bad practices such as scanning the same item multiple times
- Monitoring and reporting on store scan rates to maximize scan percentage—Effective PI maintenance requires that items are not ringed to the department key unless absolutely necessary
- Having a limited, random assortment of items counted by properly trained employees; only cycle count when the PI system displays an on-hand balance that is negative or close to zero or when a product is typically high value or high shrink
- Daily out-of-stock walks—Hole-count audits are critical

PI systems are fully reconciled at the time of a physical inventory. In any physical inventory there are two key goals:

- Accurately count the inventory at the right quantity and cost
- Ensure the right levels of controls are in place to minimize shrink

Backroom preparation and organization is an important pre-step for physical inventory. It speeds the counting process and, if maintained, supports year-round store inventory management

The timing of the physical inventory is also important. All stores should take the inventory on the same day, after the stores have closed, preferably Saturday night.

Consistency of procedures is also very important. The process, audits and controls should be as similar as possible across all stores. There should also be the implementation of a formal reconciliation process. Reporting of shrink and the timing of reporting shrink results should be predictable and consistent.

Store management should also be highly involved with the counting process. We recommend that the store manager selects (but does not indicate beforehand which one he has chosen) one department to shadow during the entire count.

Early adopter grocers are now trying RFID for automatic cycle counting, hoping it can generate accurate, real-time balance-on-hand perpetual inventory information and reduce the need for labor-intensive inventory reconciliation processes.

6 In-Store Experience

6.1 Fixtures & Lighting

A perishables department's look and feel exerts tremendous influence on consumer opinions about quality and cleanliness. Also, a well-designed area will typically require less labor, improve associate morale and provide for a better overall customer experience. Therefore, Merchandising and Store Operations should be intimately involved in any design process. Having the store design team and equipment purchaser understand both the vision and the operational constraints of the Category Manager will make for a better designed department.

Fixtures and physical plant components can help support strategic goals for perishables areas, especially when it comes to the production area and the sales floor. Production areas can be used to create visual interest and draw attention to signature programs and items. Examples include placing the Deli's brick oven in full customer view, creating an open meat cutting room or using service cheese islands.

Fixtures on the sales floor can work to create image as well. European curved glass cases have been used to elevate store decor and fully open cases with forced air curtains to maintain refrigeration are becoming increasingly popular, especially with seafood where they are usually complemented by a misting system to maintain humidity.

Innovative design elements can also work in the Service Deli. Instead of a long uniform deli case, "island" stations can be used to distinctively purvey cheese, meats, and salads. A stand-alone Deli hot food area can also showcase culinary talent while neatly combining production tasks.

Produce areas can take advantage of ice-glazed tables for cut vegetables and fruit, moveable carts and hydroponic sections, which actually grow fresh herbs and baby lettuce.

Lighting within the store is an often underappreciated piece of the merchandising plan. Proper lighting can accentuate high-quality merchandise while dull lighting tends to downgrade any possible visual appeal.

Historically, stores adopted fluorescent overhead lighting because it is energy efficient and inexpensive to install and maintain. But these lights have significant drawbacks in terms of color and often have a flicker effect that customers can find annoying. An alternative might be metal halide fixtures. These bulbs and fixtures have superior lighting color and are generally long lasting. Another choice might be accent lighting. When combined with a lower ceiling, these lights can brightly pinpoint displays and sales areas with dramatic effects.

Many new constructions also make use of skylights, which provide a free source of color-correct lighting along with a feeling of spaciousness. The new LED case lights show promise as well. If mounted in a cold or frozen case, these lights will not reflect light on the glass doors nor do they generate heat. They also maintain constant light output in cold areas, unlike the typical fluorescent bulb. The result could be significant energy savings and longer life, as well as lowered total replacement costs.

Successful restaurant companies have delved deeply into the psyche of their customer base—employing "food as theater" skills and using physical plant components to help alter the price/value relationship in the eyes of the consumer.

6.2 Theater & Entertainment

Most successful restaurant companies have delved deeply into the psyche of their customer and found that "food as theater" skills and physical plant components can positively affect the price/value relationship for their customers. Incorporating these strategies has helped restaurants reduce price sensitivities and build brand loyalty. For supermarkets, successful components of food theater programs might include food displays, sampling and in-store cooking. In all cases, these programs should be tailored to match over-all corporate strategies.

Food displays should be large and powerful. In Service Deli, build large cheese displays of popular priced cheddar and grating cheese. Instead of a few packages, utilize the over-sized cheddar and full wheels accented with smaller fresh cut blocks. Create a large grated cheese section of your "house" parmesan and keep the cheese grater going at peak times.

Seafood departments should consider complimentary fish steaming and/or frying and educational sessions with customers. Customers who are uncertain about how to prepare or fillet fish or how to shuck oysters or clams are less likely to buy those products. Allow customers to view an active demonstration. Also, offering the product already prepared or providing cooking tips will often positively influence a customer's purchasing decision.

Occasion and event centers can be used to drive Bakery and Deli sales if used in the right store clusters. Generally appropriate for mid-income suburban areas, these centers can display event-specific baked goods (e.g., graduation or wedding cakes) and Deli items, and can serve as a single point of contact for the local consumers' event needs.

Additionally, the Produce department can elevate seasonal fruits and vegetables sales with over-sized displays of a single variety (e.g., summer berries) or a large assortment of a single family (e.g., mushrooms). Meat departments can also be enhanced with dry-aging chambers and seafood in open-air displays.

Sampling programs are widespread but few are successful. The gauge of success for these programs should be their ability to grow sales. But all too frequently they are nothing more than unsanitary feeding stations for employees and a few customers. Instead of sampling domes, samples should be offered in each department and served under strict temperature control. This approach is useful in Bakery, Service Deli and Seafood. Produce and Meat areas would be better off using a recipe approach, utilizing promotional items within the prepared recipes.

Another increasingly common practice is for the store design team to bring otherwise hidden production equipment into customer view. This approach creates a "food as theater" atmosphere while making better use of store real estate. Most equipment manufacturers have also recognized this trend. Today it is possible to purchase artistically designed rotisseries, copper surfaced artesian bread ovens and powered breading tables for preparing fresh fried fish.

6.3 Sanitation & Food Handling Standards

Perishables areas within a store face unique challenges with regards to food safety. Typically these areas process significant quantities of proteins and other potentially hazardous foods. Training of management and associates is key to food safety, but stores must continually look for ways to ensure a safe and wholesome food supply. A single food problem resulting from a haphazard procedure or an unenforced rule can spell disaster for a grocery retailer.

The first step in organizing a comprehensive food safety program is to understand the products processed and the risk factors involved with each. A comprehensive methodology for documenting and mitigating these risks is called HACCP (Hazard Analysis and Critical Control Point). Originally developed by NASA, this approach to food safety has been adopted by virtually all states and jurisdictions. Simply put, it is a system to identify potential hazards and to ensure adequate control mechanisms are in place to maintain a safe food supply. An important aspect of HACCP is to document when critical points are met, typically by the use of logs.

Temperature is the key safety factor for most food production tasks. The issue may be to determine when the product has reached the appropriate "cook to" temperature, or to make sure the holding temperature of a product remains at a consistently safe level. In either case, it is imperative that a temperature-taking device always be available. The device could be an inexpensive probe, a sensor or any of a number of other monitoring/logging devices. Reheating food products is equally as important and is governed by product-specific time and temperature requirements to ensure that disease-causing organisms are destroyed. In order for a company to defend itself and ensure compliance at store level, proper processes and established, well-kept logs are recommended for each product or batch.

Food cooling is an often neglected area. As food cools, it enters the "danger zone" or temperature range at which bacteria and other pathogens can grow and flourish. Food that is covered and/or left in deep heat retaining containers can also present a danger. And sometimes coolers lack the reserves and airstream velocities to remove heat rapidly. Excellent cool down loggers that monitor and document the cool down progress of food are available and recommended.

Food culling is important in the Produce, Meat and Bakery areas. Product should be pulled/culled and inventory rotation should be executed based on product shelf life standards. This should happen first thing in the morning before customers enter the store so all they see is fresh, sales-ready merchandise.

Shelf life standards should be determined by the retailer through their own testing or through recognized standards bodies, like the Global Food Safety Initiative (GFSI). Since no government or industry-wide shelf life standards currently exist for manufacturers, some retailers, including Wal-Mart, have chosen the GFSI-recognized standards as their standard. Wal-Mart has also announced that suppliers of its private label and other food items, like produce, meat and fish, must comply with GFSI standards.

Facility sanitation needs to be included in the blueprint stage of store design. A well-designed store will have adequate floor drains, sufficient sinks, easily cleaned and sanitized surfaces and production areas for perishables that can withstand a power wash. Maintaining a facility's sanitation depends on proper resources and a culture that champions sanitation. Labor must be allocated to cleaning and sanitation tasks, whether they be daily, weekly or monthly fixed activities. Detailed cleaning targets should be established and a method of recording what was cleaned and by whom helps to build accountability and ensure compliance.

7 Why Do I Need to Change?

"There is absolutely nothing wrong with the middle," John Heinbockel, Vice President, Goldman Sachs, points out. "But if you are going to survive in the middle, you have to eliminate any glaring weaknesses. Your pricing has to be better than everyone's but Wal-Mart and your perishables must be better than everybody's but Whole Foods."

7.1 21st Century Retail Operating Environment

Competition has never been fiercer in grocery retail. Tesco has recently opened stores in California, Arizona and Nevada focused on high-quality perishables and convenient shopping. In response to Tesco's foray into the U.S. market, Wal-Mart plans to open small-format grocery stores in Arizona this year under the "Marketside" banner. Safeway has nearly completed its "lifestyle" format rollout, which, among other things, increases the amount of organics and highlights perishables departments with warm wood fixtures and museum-style lighting.

The traditional supermarket is feeling pressure from the high end with the likes of Whole Foods, from discounters with the likes of Wal-Mart and on all sides from traditional operators like Safeway and high-quality regional grocers. "There is absolutely nothing wrong with the middle," John Heinbockel, Vice President, Goldman Sachs, points out. "But if you are going to survive in the middle, you have to eliminate any glaring weaknesses. Your pricing has to be better than everyone's but Wal-Mart and your perishables must be better than everybody's but Whole Foods."[7]

To meet this challenge, traditional grocers must be quick to take advantage of changing customer demand patterns. Consumer trends are forcing grocers to completely rethink their merchandise assortment. Examples include:

- Increasing the percentage of organics
- Increasing "grab-and-go" options
- Increasing the breadth of the assortment to create a "one-stop shop" for consumers (e.g., including a Mexican grill or sushi bar)
- Including trendy health-related items (e.g., goji berries, wheat grass)

The good news is that significant opportunities still exist in grocery retail. A survey published by the Verde Group and the Wharton School and presented at the 2008 NRF convention[8] showed that "WOW" experiences are fairly rare in retail today. Only 51% of women surveyed admitted having a single "WOW" experience in their entire shopping history. Even worse, only 39% of men admitted to ever having such an experience. Too bad, since a positive shopping experience generates four times the word-of-mouth that a problem experience does. Even more sobering is that, according to the survey, more than 50% of all shoppers encounter a problem in any given shopping experience.

To gain the advantage in this scenario, stores must have leading class processes, store associates must be well-trained and, most importantly, the entire organization must have a customer-focused, sales-focused mentality.

The survey also found that four distinct sales associate "Archetypes" can mitigate shopper problems and drive shopper loyalty. These include the:

- **Educator** who knows products and will help shoppers find them
- **Engager** who is available, friendly and willing to help
- **Expeditor** who ensures customers waste little time shopping or paying

- **Authentic** who shows a genuine interest in shoppers' needs and preferences, even at the expense of making a sale

Customer loyalty must be earned with every single shopping visit. Examples exist of extraordinary retailers who have already realized this. According to Robert Price, chief marketing officer at CVS and a panelist at the NRF session mentioned earlier, CVS is using a song by Sarah McLachlan, "Ordinary Miracles", as a mantra for associates to focus on "the ordinary miracles that our customers perform every day" whether that's taking care of themselves or their kids. Such organizational attitudes toward customer service not only create repeat customers but can also help propel any retailer into the superpower category.

Given the traditionally high labor turnover in grocery retail, it's also important to institute simple, repeatable training processes for new employees, so they can quickly learn the skills necessary to excel at their job. Finally, a culture of continuous improvement must be instituted to ready the organization for the next round of changes in market dynamics.

8 Our Approach

Our approach to fresh item merchandise is to focus on the process and align the technology. We have an experienced methodology that accelerates adoption and ongoing usage. We address activity at store level and concentrate on the end user's needs. We then invest the right amount of time in the change management process, but we get software tools and processes out quickly, as compared to other vendors or self-directed efforts. We aren't married to one particular solution so we can be flexible to the organization's specific dynamics and we understand how to "fit" a software's vision into a company's need.

Fresh item projects take varying amounts of time depending upon scope. For example, production planning implementations range from 9–12 months while certain store-level "quick hits" may take only a month or two. Our perishables projects typically begin with an eight- to ten-week diagnostic divided into twelve broad areas, covering the entire supply chain (Figure 7).

Figure 7: Capgemini's broad approach to perishables operations

Production Scheduling/Planning
- Store specific POS trend and forecast
- Store or centrally managed
- Improved in-stock, reduced loss

Store Specific Merchandising Standards
- POS based min/max merchandising standard
- Day of week, time of day standards

Yield and Price Verification
- As sold to as pruchased verification
- Cutting, production yield
- Tare, scale and price integrity

Physical Inventory and Ingredient Management
- Pre, day of, and post inventory procedures
- Processes to support perpetual inventory

Staffing and Labor Management
- Customer Interface and service level
- Open hours analysis
- Task scheduling
- Staff scheduling

Product Replenishment (Ordering)
- Store, POS, and frequency of delivery based
- Cycle time of order to delivery
- Average days on hand/inventory turns

Storage Condition
- Time and temperature
- Cross contamination prevention

Physical Security
- Employee, customer, and vendor theft
- Back Stage Accounting Practices
- Vendor invoice processing
- Product transfer, inventory valuation

Warehouse and DSD Receiving
- Quantity, quality, yield, and price verification
- Cold chain integrity
- Vendor management
- Supplier scorecard – certification

Product Recovery/Product Conversion

Performance Management
- Benchmarking, tracking of key indicators
- Known loss of tracking
- Enhanced category management

The ASE Delivers in a 3-day DesignEvent™ what typically takes 3–6 months worth of work using traditional methods.

The diagnostic typically yields 40–70 "quick hits" and 10–15 strategic initiatives from which we drive value as soon as possible. We often begin quick hit implementation before the end of the diagnostic.

The diagnostic phase can then be followed by an Accelerated Solutions Environment™ (ASE) session designed to validate, quantify and consolidate strategic transformation opportunities into an integrated program and gain organizational alignment on all strategic initiatives.

What if...

- you could get all of your stakeholders to work together to discuss your business strategy, technology architecture and next business improvement initiative?
- you could unleash the full potential and creativity of your staff, your leadership team, key suppliers, customers and subject matter specialists all at once—and agree on a common vision and transformation roadmap?
- you could accelerate all phases of your system development projects reducing months to weeks and weeks to days?
- your team could identify tens of millions of dollars in cost savings, develop a detailed action plan to realize the benefits and then commit to each other to go for it?

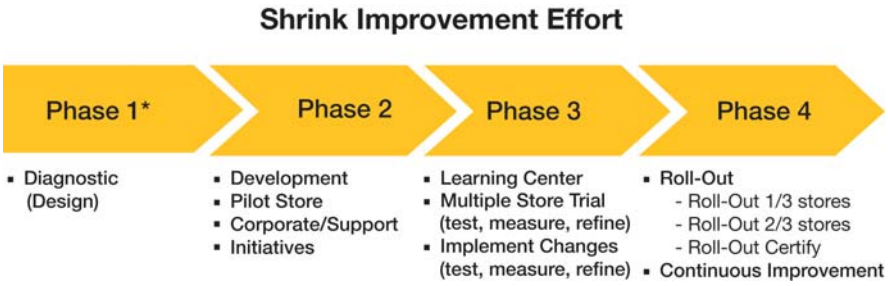
In the Accelerated Solutions Environment™ (ASE), we combine our world-class facilitation team, patented decision-making process, global knowledge bases and innovative workspaces to enable organizations to make better, faster business decisions. We have conducted thousands of successful ASE DesignEvents™ for leading organizations around the world.

The Bottom Line

The value of an ASE is realized through:

- **Acceleration**: The process dramatically reduces cycle times for solution delivery and results. Sponsors often say that they "have accomplished three, six, or nine months of work in three days."
- **Commitment**: The rapid alignment and mobilization of a large team occurs in several days. Change agents make the decisions and commit to the successful implementation of the solution.
- **Reduced Risk**: Higher quality solutions are developed through creative collaboration in a knowledge-rich environment. Better, more comprehensive solutions yield superior operating results.

Figure 8: Typical Perishables Initiative Program Timeline



*10 Weeks

Source: Capgemini

After the diagnostic and the ASE session, we finish implementing quick hit recommendations while simultaneously beginning the pilot phase for selected strategic initiatives. During the pilot phase, we recommend establishing a focus and control group of stores to properly measure the program's impact.

Careful consideration must be given when choosing pilot stores. It is important to choose stores that are representative of the larger business but not mission critical in terms of organizational risk.

Following the pilot, our implementation approach (Phase 2) is fine-tuned to incorporate the lessons learned. Phase 3, termed the Learning Center, follows with a rollout to a larger subset of stores. Our approach is further refined and then full rollout (Phase 4) begins on an enterprise-wide level (Figure 8).

Capgemini is dedicated to the art of collaboration, acceleration and delivering measurable and enduring value. The greatest testimony of our value is our list of repeat clients.

About Capgemini and the Collaborative Business Experience

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies. Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working—the Collaborative Business Experience—and through a global delivery model called Rightshore®, which aims to offer the right resources in the right location at competitive cost. Present in 36 countries, Capgemini reported 2007 global revenues of EUR 8.7 billion (approximately US$12 billion) and employs over 83,000 people worldwide.

More information is available at www.us.capgemini.com.

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Appendix

Endnotes

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Acronyms

ASE – Accelerated Solutions Environment™

DSD – Direct Store Delivery

FIM – Fresh Item Management

HACCP – Hazard Analysis and Critical Control Point

LED – Light-Emitting Diode

NASA – National Aeronautics and Space Administration

NRF – National Retail Federation

PI – Perpetual Inventory

PLU – Product Look-Up

POS – Point-of-Sale

RF – Radio Frequency

RFID – Radio Frequency Identification

UPC – Universal Product Code

WFM – Workforce Management

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