

The background of the slide is a sunburst pattern with rays radiating from the center. The rays are composed of alternating bands of light blue and a slightly darker shade of blue, creating a dynamic, starburst effect.

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*Retail 2008*

**2007 Grocery SuperStudy**  
***Improving Total Store Performance  
in the Grocery Channel***

Prepared for



**WILLARD BISHOP**

*April 1, 2008*



## Grocery *SuperStudy* Background

Twelve study stores, four “typical” stores each were selected. Analysis included:

- ▶ 52 weeks, calendar 2006 analysis (all departments – all SKUs)
- ▶ All cash discounts, promotional monies, and lump-sum payments
- ▶ Activity-based costs (warehouse, transportation, and store)
- ▶ Common category hierarchy and definition across the three chains

The composite (average) store results in this study are the average of these three retailers.





# Executive Summary

## Headlines

- ▶ The center store generates 72% of total store sales and 88% of total store true profit.
- ▶ Within the center store, GM generates 6.7% of sales and 5.1% of true profit.
- ▶ Within GM, Books/News\* generates 2.6% of sales and 7.2% of true profit (\$.36 per unit).
- ▶ Within GM, Magazines generate 6.4% of sales and 16.3% of true profit (\$.58 per unit).
- ▶ Both Books/News and Magazines are top performers, but do have unproductive space.
- ▶ DSD products are 28% (\$.14 per unit) less to handle than warehouse delivered products.
- ▶ Across the store, 73% of SKUs sell fewer than three units per week.`

\* Books/News includes books, newspapers, calendars, and maps

## Implications

- ▶ Be prepared for grocery retailers to shrink center store space by 5% over the next five years.
- ▶ Be prepared to either grow sales or defend existing space.



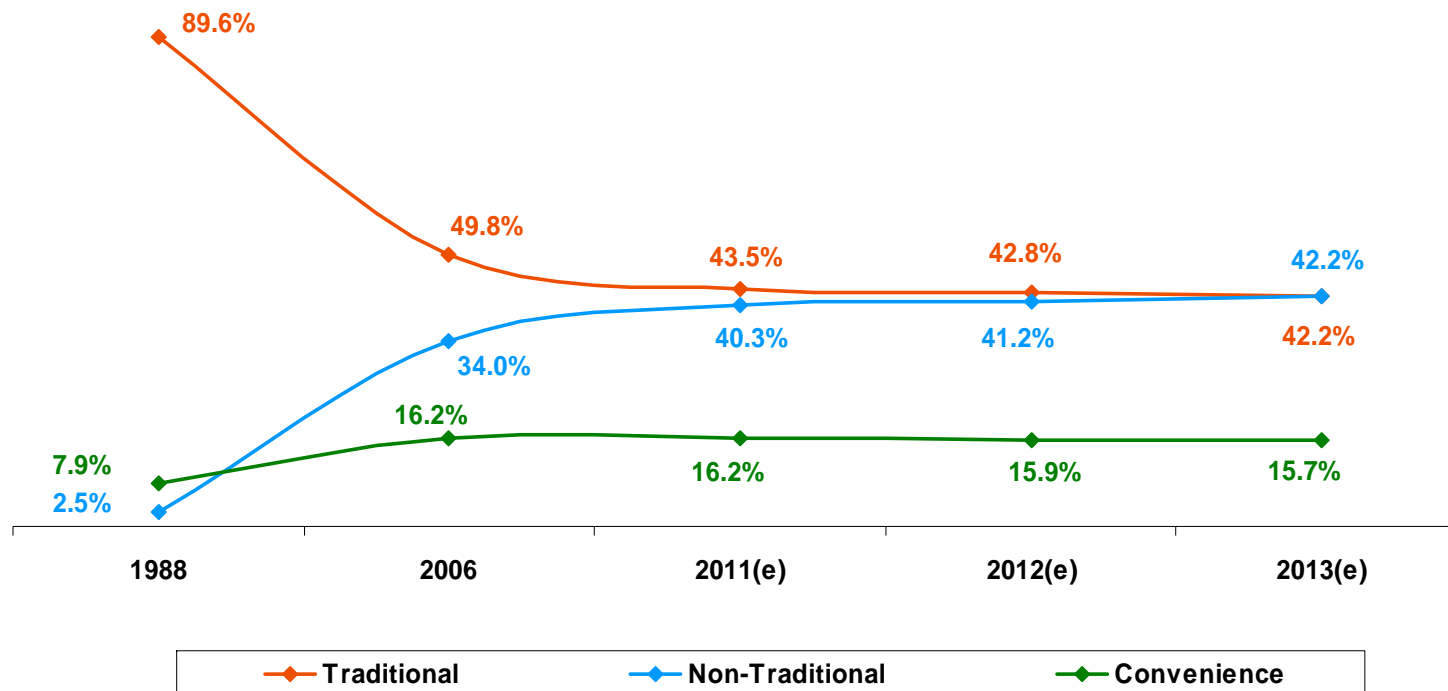
***The Future of the  
Center Store***



# Over the Past Two Decades, Traditional Retailers Have Lost Significant Ground

By 2013, non-traditional retailers will equal traditional retailers in food and consumables sales.

**Market Share**  
(By Segment)



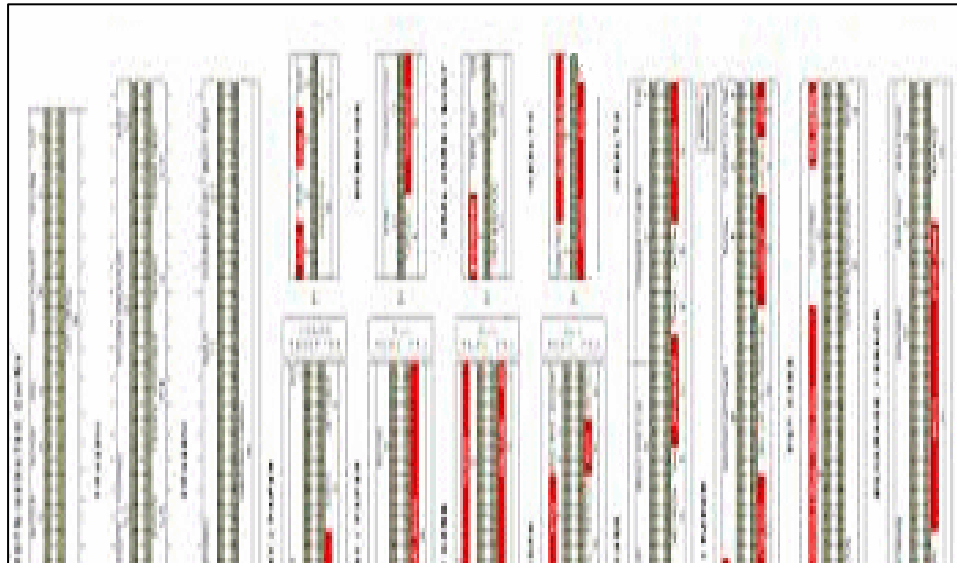
Source: Willard Bishop, 2007



# The Financials Behind the Change

## Center Store (Grocery, Frozen, Dairy, GM, HBC)

- ▶ 1 in 4 categories lose money today.
- ▶ 50% of center store SKUs lose money.
- ▶ 73% of SKUs sell fewer than three units per week.



**Red Stocking  
Sections are Losing  
Money After ABCs**

Source: Willard Bishop Total store SuperStudy



# What's Going on With Traditional Grocery Retail?

## What's Happening?

- ▶ Traditional grocery is losing shopper share to non-traditional grocery and fresh format stores
- ▶ Entrance of 4,000 fresh format stores in five years broadens competitive landscape
- ▶ Traditional grocery is looking at all angles to revitalize business, compete, and increase profitability
- ▶ Traditional grocery is starting to look beyond P&L statement for answers

## What's the Response?

- ▶ We think center store is going to shrink.

**The question is ....Really? When? And by how much?**



## The Answer is **YES**—Center Store Really IS Shrinking!

In a recent survey of over 32 retailers, 70% of executives stated that they will be shrinking center store to make room for an expanded perimeter offering and to improve store ROI.

### What's the Response?

- ▶ Traditional supermarket retailers are considering changing size, assortment, emphasis to compete with fresh formats stealing share
  - ▶ For the first time, traditional supermarket retailers are considering eliminating unprofitable categories from total store altogether
  - ▶ Select suppliers are already working with retailers to launch total store space initiatives that drive improved ROI and improved shop-ability – pilots are already underway
- 
- ▶ Over five years (by 2011)
  - ▶ On average, retailers will be cutting by 5+% which equals two full aisles from center store



**Key SuperStudy  
Learnings**



## Key Study Learnings

1

The study retailers are generating \$616,890 in total weekly store sales, with a true profit contribution of \$57,199 (9.3% of sales).

### Total Weekly Dollars Per Store (3-Chain Composite)

	Total Store	Percent	Share of Total Store	
			Center Store	Perimeter
Sales	\$616,890	100.0%	72.4%	27.6%
Less Cost of Goods*	\$430,521	69.8%	76.3%	23.7%
Gross Profit	\$186,368	30.2%	63.4%	36.6%
Trade and Terms	\$4,838	0.8%	93.0%	7.0%
Adjusted Gross Profit	\$191,207	31.0%	64.1%	35.9%
Less Activity-Based Costs	\$134,007	21.7%	54.1%	45.9%
<b>True Profit</b>	<b>\$57,199</b>	<b>9.3%</b>	<b>87.7%</b>	<b>12.3%</b>

The center store is driving 87.7% of total store profitability for retailers.



# Key Study Learnings

2

**Center store departments combine to generate 72% of total store sales and almost 88% of total store true profit.**

In terms of department profitability, dairy and frozen are performing particularly well—generating a share of store true profit that is more than double their respective share of sales.

**Average Weekly Dollars Per Store**  
(Center Store Departments)

<b>Financials</b>	<b>Grocery</b>	<b>Dairy</b>	<b>Frozen Foods</b>	<b>GM</b>	<b>Pharmacy</b>	<b>Liquor</b>	<b>HBC</b>	<b>Total Center Store</b>
Weekly Sales	\$181,201	\$51,844	\$45,959	\$41,606	\$62,000	\$30,459	\$33,354	\$446,423
COGS	\$134,892	\$34,056	\$30,208	\$28,614	\$50,256	\$25,763	\$24,519	\$328,307
Gross Profit	\$46,309	\$17,788	\$15,751	\$12,992	\$11,744	\$4,696	\$8,835	\$118,116
Trade & Terms	\$1,859	\$403	\$501	\$784	\$0	\$910	\$40	\$4,497
Adjusted Gross Profit	\$48,168	\$18,191	\$16,252	\$13,776	\$11,744	\$5,606	\$8,875	\$122,613
ABCs	\$27,528	\$6,733	\$8,037	\$10,831	\$8,898	\$3,369	\$7,052	\$72,448
<b>True Profit</b>	<b>\$20,640</b>	<b>\$11,458</b>	<b>\$8,215</b>	<b>\$2,945</b>	<b>\$2,846</b>	<b>\$2,237</b>	<b>\$1,823</b>	<b>\$50,165</b>
% of Store Sales	29.4%	8.4%	7.5%	6.7%	10.1%	4.9%	5.4%	72.4%
% of Store Adj. Gross Profit	25.2%	9.5%	8.5%	7.2%	6.1%	2.9%	4.6%	64.1%
% of Store True Profit	36.1%	20.0%	14.4%	5.1%	5.0%	3.9%	3.2%	87.7%

HBC = Health and Beauty Care

All center store departments are generating a positive true profit.



# Key Study Learnings

3

Within GM, Magazines drive 6.4% of sales but yield 16.3% of true profit.

**Average Weekly Dollars Per Store**  
(GM Categories)

Financials	Plastic	Greeting Cards gift wrap & Party	Sporting Goods	Small Appliance	Books-News	Magazines	Total All Other	GM
Weekly Sales	\$3,949	\$3,694	\$83	\$79	\$1,094	\$2,673	\$30,034	\$41,606
COGS	\$2,659	\$1,791	\$59	\$56	\$819	\$2,189	\$21,041	\$28,614
Gross Profit	\$1,290	\$1,903	\$24	\$23	\$275	\$485	\$8,993	\$12,992
Trade & Terms	\$53	\$169	\$0	\$0	\$51	\$349	\$162	\$784
Adjusted Gross Profit	\$1,343	\$2,072	\$24	\$23	\$326	\$834	\$9,155	\$13,776
ABCs	\$676	\$1,491	\$44	\$49	\$114	\$353	\$8,105	\$10,832
<b>True Profit</b>	<b>\$667</b>	<b>\$581</b>	<b>-\$21</b>	<b>-\$27</b>	<b>\$212</b>	<b>\$481</b>	<b>\$1,050</b>	<b>\$2,945</b>
% of GM Sales	9.5%	8.9%	0.2%	0.2%	2.6%	6.4%	72.2%	100.0%
% of GM Adj. Gross Profit	9.7%	15.0%	0.2%	0.2%	2.4%	6.1%	66.5%	100.0%
% of GM True Profit	22.7%	19.7%	-0.7%	-0.9%	7.2%	16.3%	35.7%	100.0%

Only 52% of GM categories are generating a positive true profit.



# Key Study Learnings

4

**On a per-unit basis, magazines generate \$.58 for every unit sold.**

Despite higher refrigeration costs, frozen has low ABCs per unit sold because of strong inventory turns. On a per-unit basis, both Books-News and Magazines are more profitable than the average GM SKU.

**Average Contribution Per Unit Sold**  
(Center Store Departments)

<b>Financials</b>	<b>Pharmacy*</b>	<b>Frozen</b>	<b>Liquor</b>	<b>Dairy</b>	<b>Grocery</b>	<b>HBC</b>	<b>General Merch</b>	<b>Books-News</b>	<b>Magazines</b>
Retail Price	\$58.49	\$2.75	\$10.96	\$1.96	\$2.24	\$4.46	\$3.22	\$1.85	\$3.25
COGs (Unit)	\$47.83	\$1.81	\$9.27	\$1.29	\$1.66	\$3.33	\$2.23	\$1.39	\$2.66
Gross Profit	\$10.67	\$0.94	\$1.69	\$0.67	\$0.58	\$1.13	\$0.99	\$0.47	\$0.59
Trade & Terms	\$0.00	\$0.03	\$0.00	\$0.02	\$0.02	\$0.00	\$0.05	\$0.09	\$0.42
Adjusted Gross Profit	\$10.67	\$0.97	\$1.69	\$0.69	\$0.60	\$1.14	\$1.04	\$0.55	\$1.01
ABCs	\$9.70	\$0.47	\$1.21	\$0.26	\$0.34	\$0.93	\$0.92	\$0.19	\$0.43
<b>True Profit</b>	<b>\$0.97</b>	<b>\$0.51</b>	<b>\$0.48</b>	<b>\$0.43</b>	<b>\$0.26</b>	<b>\$0.21</b>	<b>\$0.12</b>	<b>\$0.36</b>	<b>\$0.58</b>

*\*Pharmacy values reflect the average dispensed prescription as reported by the study retailers.*

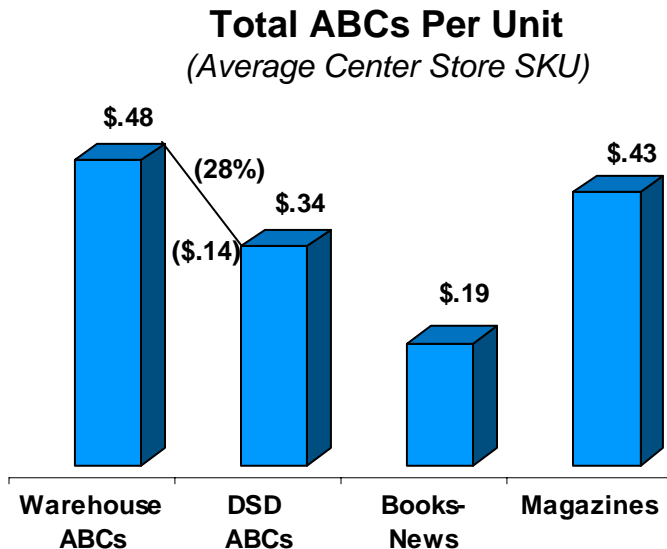
Compared to grocery, general merchandise and HBC items have high ABCs because they do not generate strong turns.



# Key Study Learnings

5

The average DSD\* product costs retailers 28% (or \$.14 per unit) less to handle than warehouse-delivered items.



**Average Center Store ABCs Per Unit Sold**  
(By Activity)

	Warehouse	DSD	Books-News	Magazines
Warehouse Labor	\$0.029	\$0.000	\$0.000	\$0.000
Warehouse Occupancy	\$0.037	\$0.000	\$0.000	\$0.000
Warehouse Interest	\$0.004	\$0.000	\$0.000	\$0.000
Transportation	\$0.028	\$0.000	\$0.000	\$0.000
Store Labor	\$0.115	\$0.045	\$0.020	\$0.019
Indirect Labor	\$0.075	\$0.128	\$0.068	\$0.122
Store Occupancy	\$0.184	\$0.169	\$0.099	\$0.277
Store Interest	\$0.005	\$0.001	\$0.004	\$0.010
<b>Total ABCs</b>	<b>\$0.478</b>	<b>\$0.344</b>	<b>\$0.192</b>	<b>\$0.429</b>

Store occupancy is the single largest cost to retailers. Due to the efficiencies of pallet handling in the warehouse versus case and unit handling in the store, warehouse labor is only a very small portion of retailer ABCs.

\*DSD includes third-party distributors who primarily handle the ordering and some stocking activities.



# Key Study Learnings

6

When space is equivalent – Dairy is the clear winner.

## Weekly True Profit (Per SFF\* Per Store)

Center Store		Perimeter		Magazines   Books/News		
Department		Department				
Pharmacy	\$19.41	Packaged Deli	\$14.13	TP/SFF	\$2.76	\$4.77
Dairy	\$15.42	Produce	\$7.20	% Sales	0.4%	0.2%
Frozen	\$5.00	Floral	-\$1.04	% Space	0.8%	0.2%
Grocery	\$2.14	Meat	-\$1.46	% True Profit	0.8%	0.4%
Liquor	\$2.13	Bakery	-\$14.58			
Gm	\$0.81	Deli and Foodservice	-\$15.69			
HBC	\$0.79	Seafood	-\$18.23			

\*Sq. Ft. Facing = Shelf Height X Product Width X #Facings

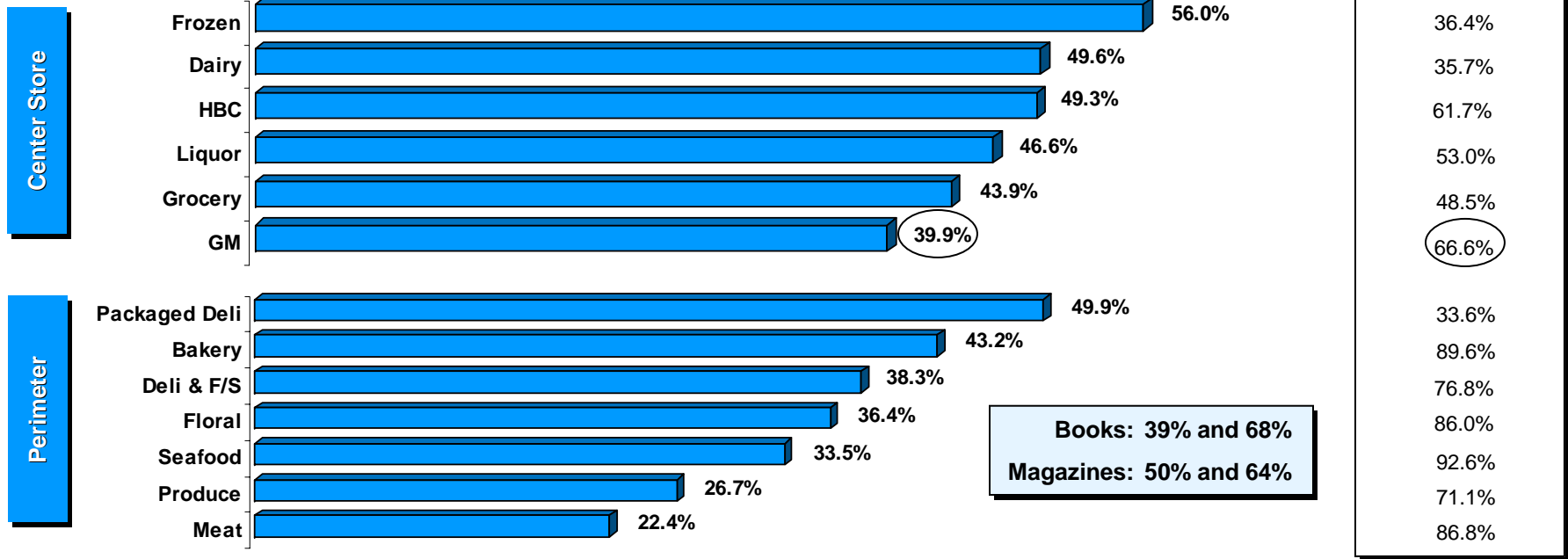
General merchandise and HBC departments have the lowest center store performance per square foot.



# Key Study Learnings

**7** Across most departments, fewer than half of department SKUs account for 95% of department sales.

**Percent of SKUs Representing 95% of Department Sales**  
(By Department)



*Note: Due to the unique nature of pharmacy products, this department was excluded from this finding.*

In most perimeter departments, SKU productivity is even more concentrated with fewer than one-third of SKUs generating 95% of sales.



## Key Study Learnings

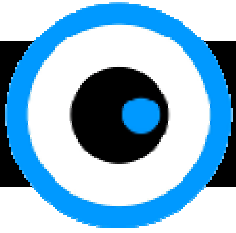
8

Across the store, 73% of SKUs sell fewer than three units per week.

Percent of SKUs Selling Less Than “X” Units Per Week Per Store  
(By Department)

Department	<1	<2	<3
<b>Center Store</b>			
HBC	65%	91%	96%
GM	55%	81%	89%
Liquor	44%	70%	82%
Grocery	22%	41%	53%
Frozen	8%	25%	38%
Dairy	5%	14%	21%
<b>Perimeter</b>			
Floral	26%	54%	65%
Seafood	27%	50%	65%
Deli and Foodservice	25%	50%	64%
Bakery	26%	48%	58%
Meat	22%	41%	54%
Produce	19%	41%	53%
Packaged Deli	6%	17%	26%
<b>Total Store</b>	<b>41%</b>	<b>64%</b>	<b>73%</b>

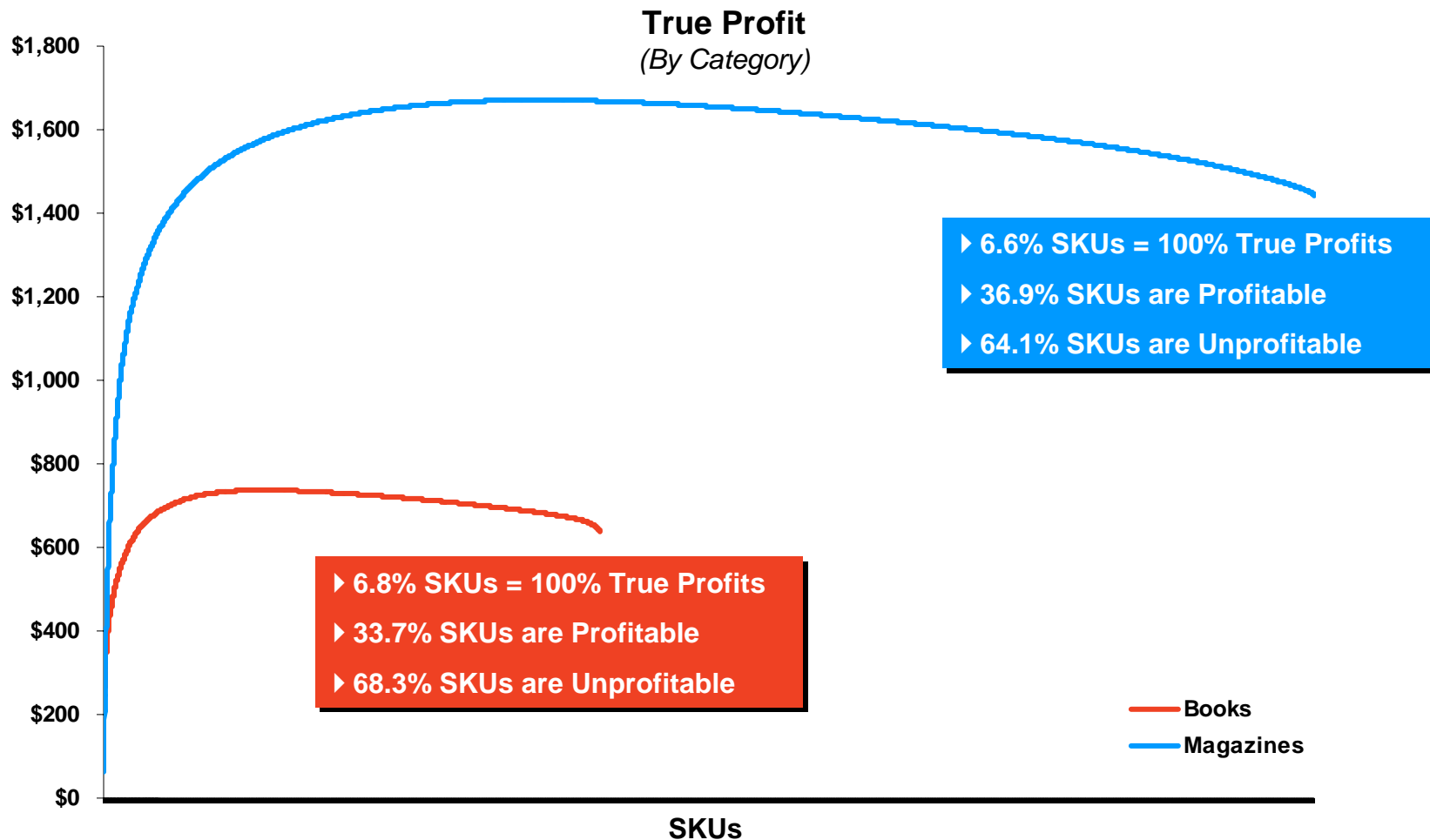
Many of these slow-moving products are new items that never make it. While new item introductions drive growth, careful consideration should be given to which products are introduced because of store loyalty and reset costs.



# Key Study Learnings

9

Both categories have unproductive SKUs and space.





## Summary of Learnings

- ▶ Center store drives retailer store profitability.
- ▶ Books and magazines are key contributors.
  - ▶ True profits/unit of \$0.36 and \$0.58, respectively.
  - ▶ Lowest ABC % in General Merchandise with 10.4% and 13.2%, respectively.
- ▶ There are opportunities to continue to drive value and profitability by:
  - ▶ Increasing turns
  - ▶ Increasing sales
  - ▶ Reducing store labor (handling) and occupancy costs
  - ▶ Optimizing product mix
- ▶ Magazines provide a higher true profit per unit than other front-end categories, e.g., gum – \$0.27, candy – \$0.12, carbonated beverages – (\$0.08), snacks – \$0.34.



# So, What Do You Do About It?

## Do These Five Things

1. Focus on total store: category to aisle to department to total store
2. Be in control to manage important and changing aisle space (if you don't do it, some one else will)
3. Be viewed as serious collaborative partner
4. Have strong top-to-top discussions with your retail clients
5. Be in front of changing center store space initiatives.



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**Retail**

**2008**