Understanding Retailer Financial Metrics to Increase Sales

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Craig Rosenblum

- Supply and demand side technologies, systems, and strategies
- Category Management, CPFR, ECR, Activity-Based Costing, and Data Synchronization
- Has worked with CVS, SuperValu, Cadbury Schweppes, and Masterfoods USA
- Previously worked for Prescient Applied Intelligence, Milton Merl Associates, and Crossmark.
- Currently sits on the National Steering Planning Committee for UConnect, presents at CGIT, and has been published in GMA Forum
- Earned his B.S. degree in Packaging Science and Technology from Rochester Institute of Technology.

Inmar operates intelligent commerce networks

inmar Supply Chain NETWORK

- Returns Management
- Remarketing
- Recall Management
- Analytics

inmar Healthcare NETWORK

- Rx Returns Management
- Rx Recalls Management
- Pharmacy Financial Management
- Analytics

inmar Promotion NETWORK

- Coupons
- Digital Promotions
- Rebates
- Analytics

SUPPLY CHAIN MARKETING MERCHANDISING
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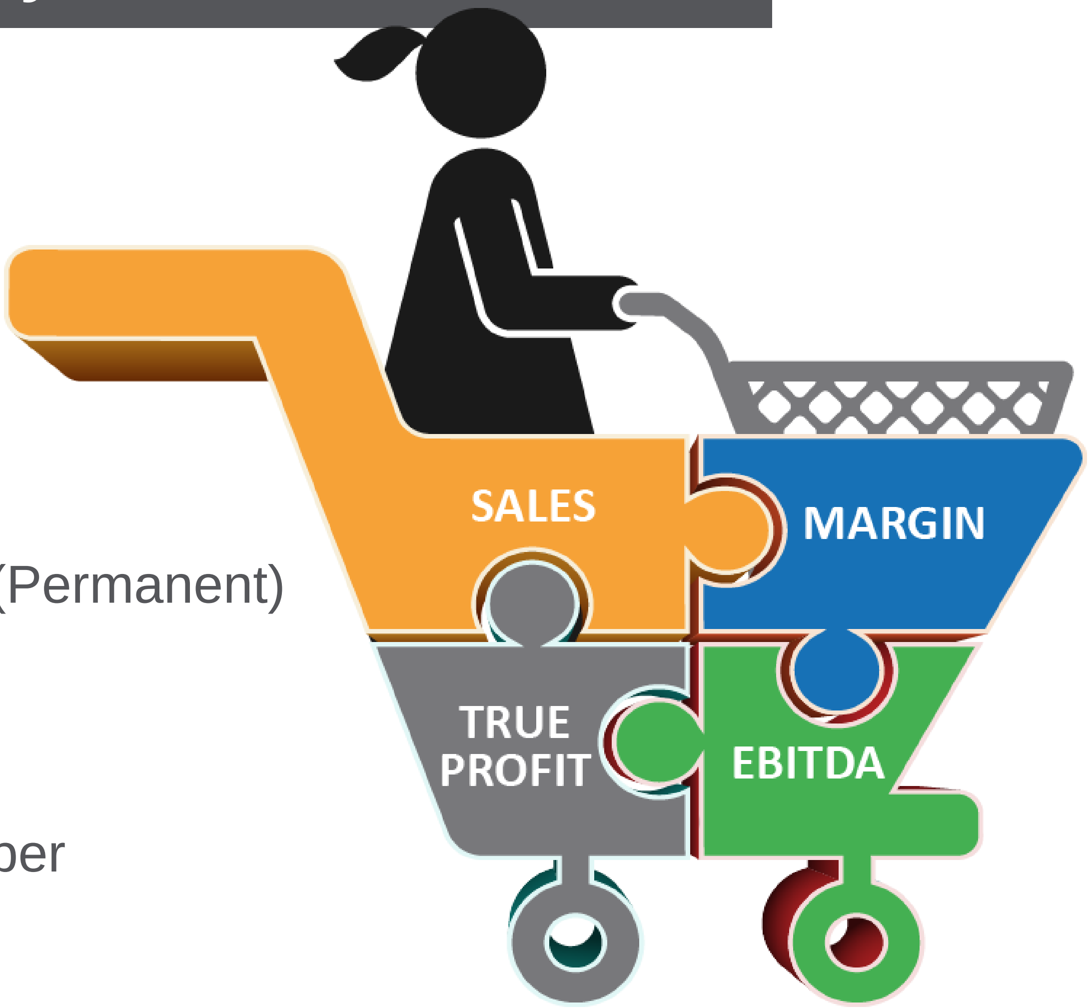
Inmar Analytics

Show me the money

- Changing Viewpoints
- Financially-Driven Case Studies
  - Gaining Shelf Space
  - Secondary Placement (Permanent)
- eCommerce
  - Ready. Set. Order.
  - The eCommerce Shopper
- Q&A



Understanding activity-based costs (ABCs)

Per-Unit Adjusted Gross Profit: $0.73

Adjusted Gross Margin: 25.26%

Per-Unit True Profit: $0.19

True Profit Margin: 6.63%

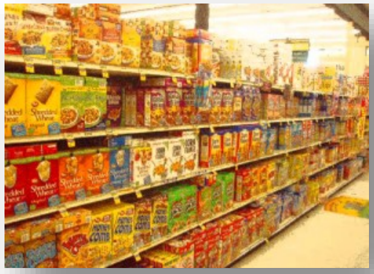
ABCs (Per-Unit Sold): Total ABCs Per-Unit Sold $0.54

Warehouse Costs:

$0.08

Direct Labor:

$0.18



Occupancy (Space):

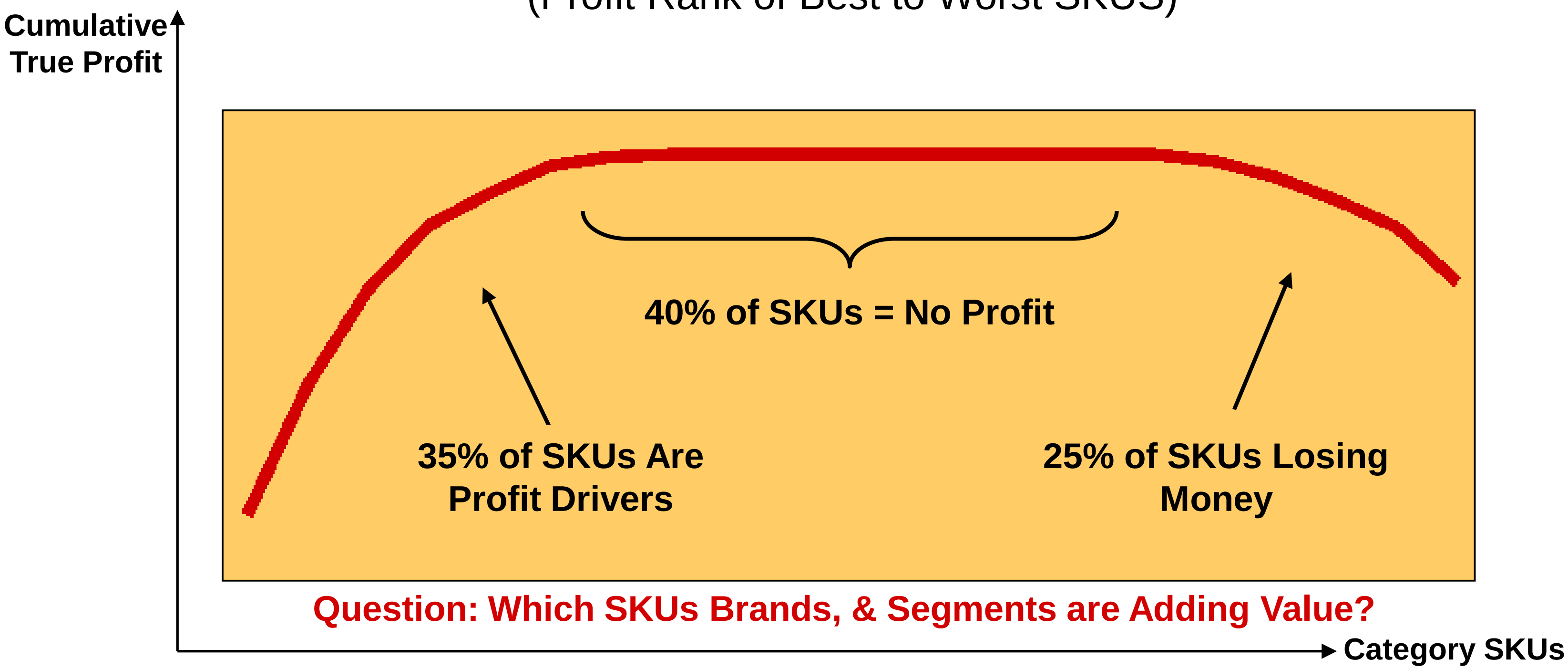
$0.21

ABCs also include indirect labor and inventory carrying costs: $0.07 per-unit sold

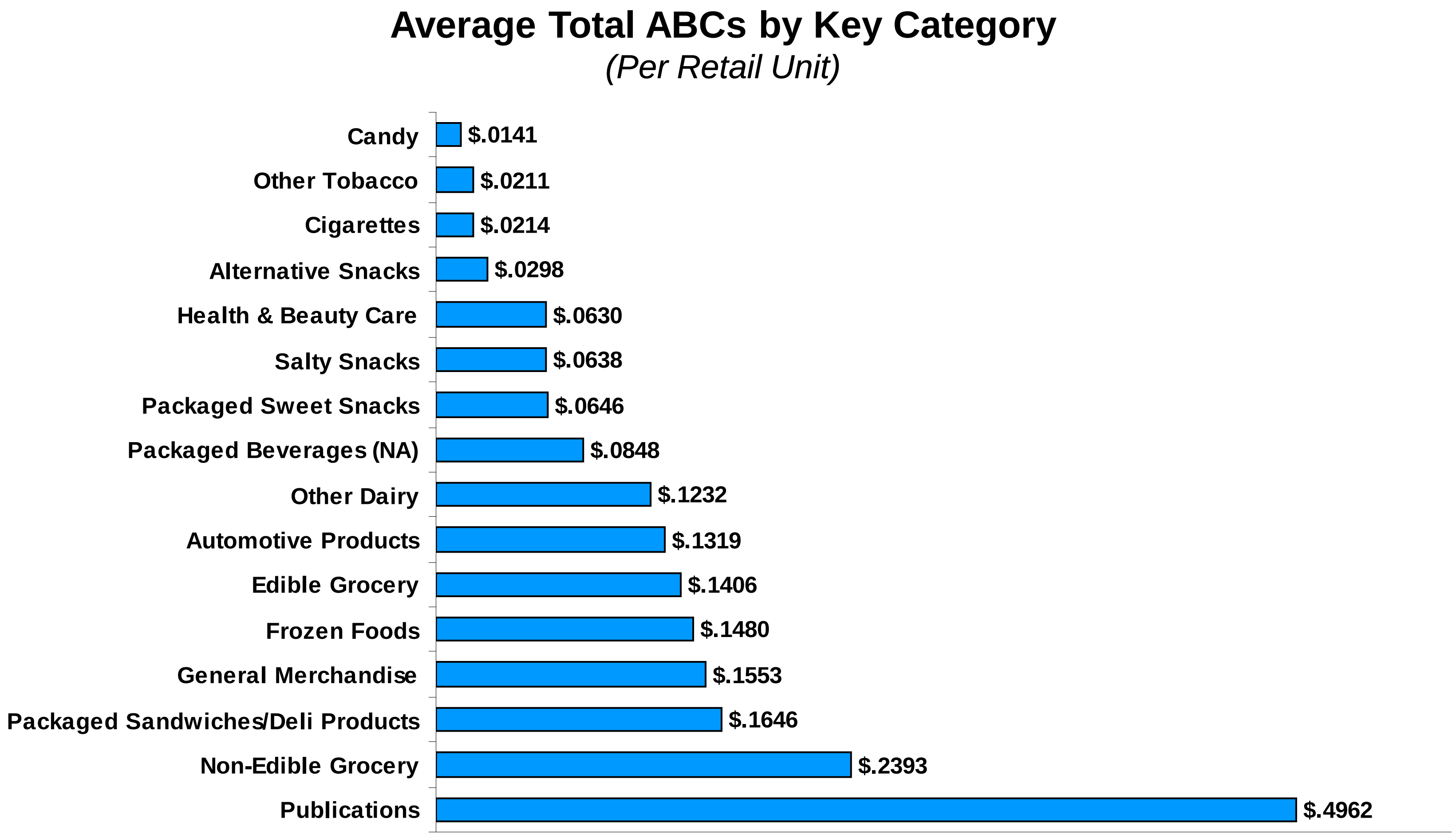
Why is it so important?

Most categories begin to experience diminishing returns where ABCs exceed gross profit dollars. Knowing when that occurs is critical to improving ROI.

Typical True Profitability In a Category
(Profit Rank of Best to Worst SKUS)



Every category is different

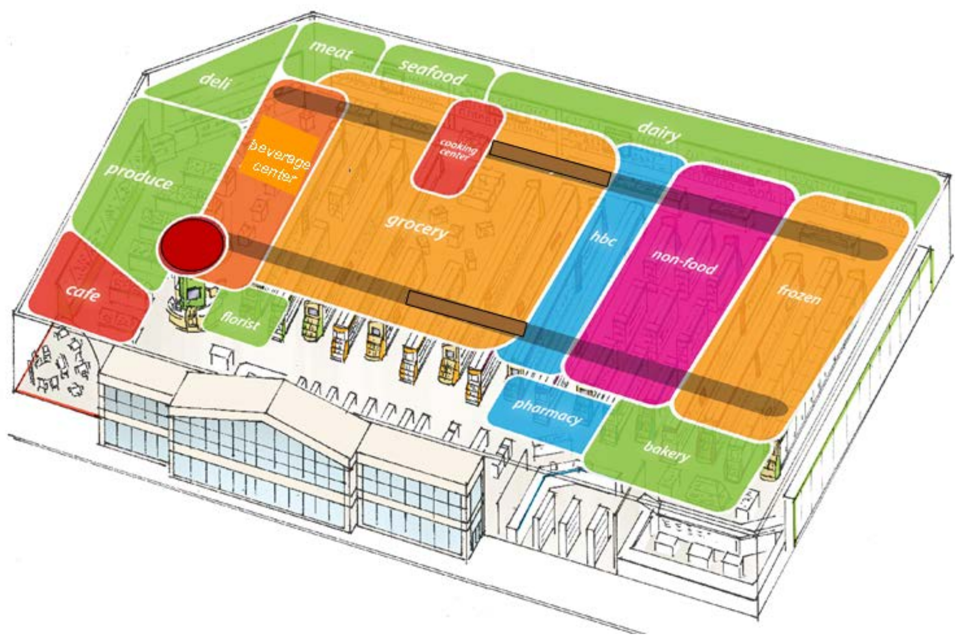


What is the *SuperStudy*™

- Wall-to-wall look at the performance of every SKU in the store
- 80+ different financial metrics (with DSD and private label breakouts)—each designed to help you support your questions/retail initiatives
- Driven by real data from Ahold, Kroger, and Safeway

Where is the data coming from?

Where in the store does the data cover?



Typical challenges / questions suppliers ask about supporting their products

How do I DEFEND my space from others?

How do I EXPAND category space?

How do I MAKE ROOM for new items?

Why you need the *SuperStudy*™ to tell your story

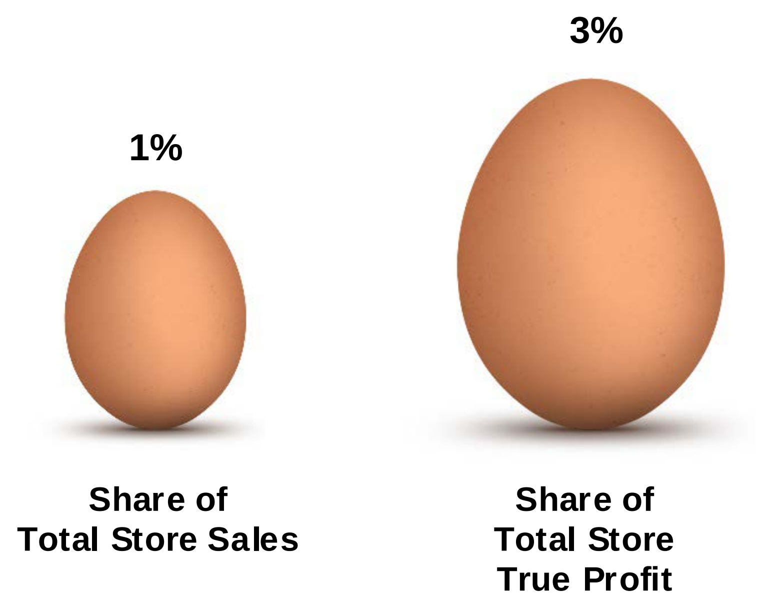
Visibility into product profitability changes the entire selling story.

DID YOU KNOW THAT…

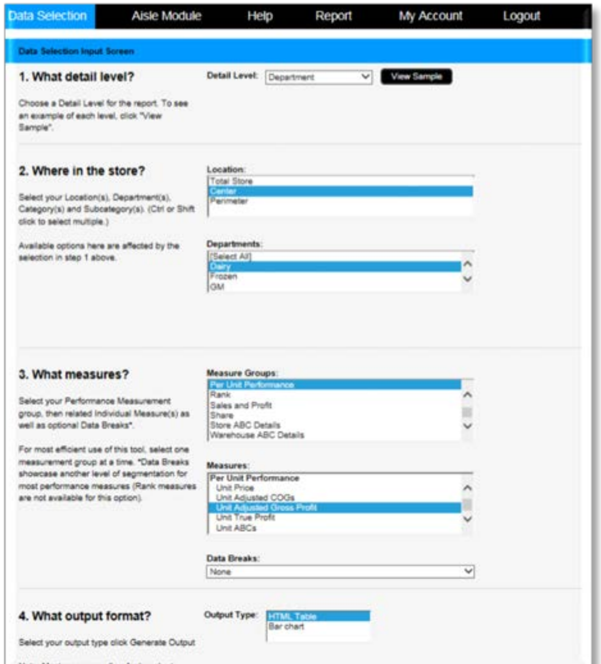
Eggs rank 24th in total store sales (out of 230 categories)

If we stopped there, we'd assume this category was a top performer.
But…

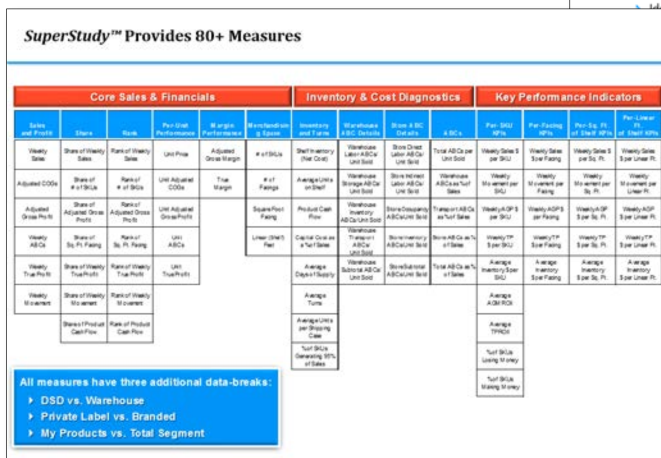
It also ranks 8th for true profit,
now THAT'S A TOP PERFORMER!



What's included?

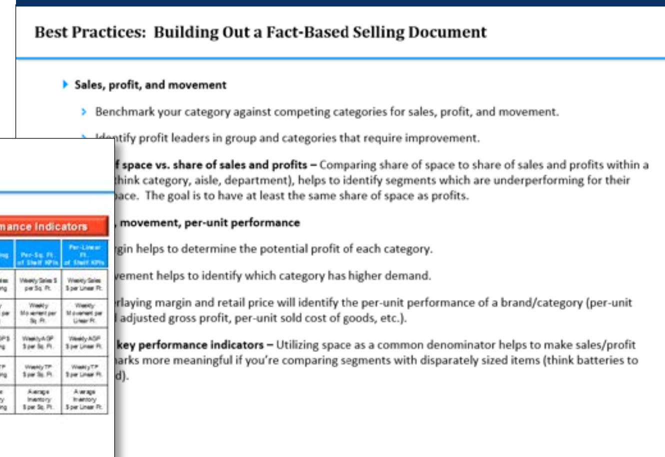


Easy Online Web Application



80+ Performance Metrics

Best Practices for Building Insights



EXAMPLE OUTPUTS

	Location	Department	Category	Subcategory	Store ABCs as % of	Transport ABCs as	Warehouse ABCs as	Total ABCs per Uni	Total ABCs as % of	Average Units Pe	Shelf Inventor	Average Units o	Product Cash Flo	Capital Cost as a	Average Days of	Average Turns	Adjusted Gross	True Margin	# Facings
1																			
2	Center	GM	Cat Food	Cat Treat	18.03%	0.63%	4.94%	$0.55	23.60%	8.303644	$1,263.22	14.979757	$79.75	0.63%	29.745235	12.270873	36.07%	12.47%	59.013355
3	Center	GM	Cat Food	Dry Cat Food	18.79%	1.44%	3.29%	$1.59	23.52%	4.753213	$4,494.94	7.727506	$200.85	0.66%	26.773075	13.6331	24.55%	1.03%	121.69444
4	Center	GM	Cat Food	Fresh Cat Food	101.88%	0.72%	2.97%	$6.54	105.58%	4.571429	$24.57	7	$0.41	1.55%	70.654074	5.166015	37.07%	-68.51%	1.015491
5	Center	GM	Cat Food	Wet Cat Food	25.28%	0.67%	12.17%	$0.31	38.12%	18.613466	$5,839.44	33.955112	($86.56)	0.61%	21.73388	16.794056	29.29%	-8.83%	383.28526

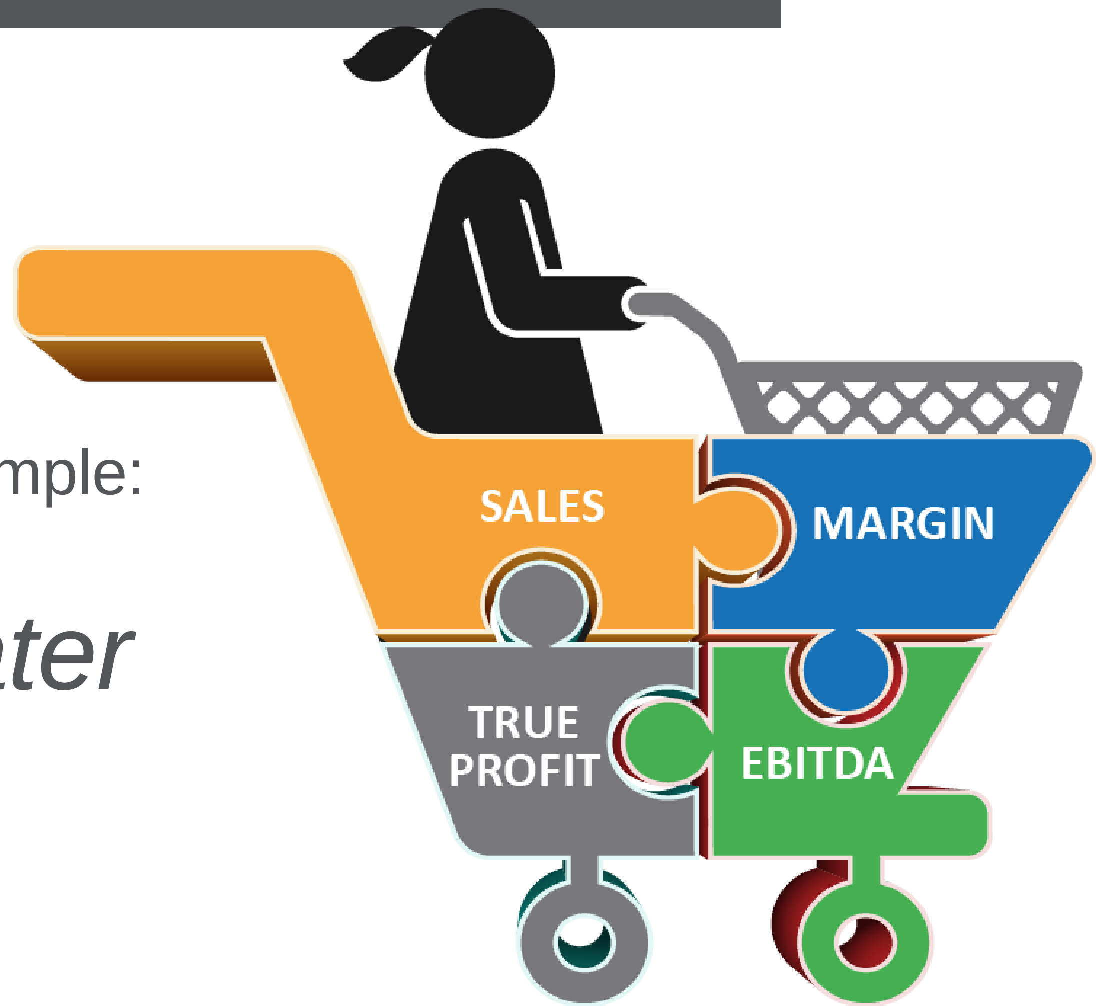
SuperStudy™ key benefits: Generating ROI

1. Support strength of category in aisle, strength of brand in category
   Payback: Optimal space allocation for category or brand ensuring/increasing sales and profit
2. Secondary placement: supporting secondary placement of your product(s)
   Payback: Increased inventory, sales, volume, and profit
3. Assortment optimization
   Payback: Reduces risk of OOS, makes way for new item introduction/insertion, possible demand transfer to remaining SKUs, increased sales, volume and profit of remaining SKUs
4. Margin and hurdle rate requirements
   Payback: Informs supplier on existing segment performance thresholds—good for ensuring new item introductions are meeting retailer "requirements"
5. Private Label Performance
   Payback: Provides margin, profit, and volume information on store brand products for manufacturers interested in providing private label offering to retail customer(s)

Case Study One

Right-Sizing Space Example:

Expanding Water into Beverage Aisle



Addressing category space growth

- Does my category/brand deserve its space in aisle (expansion, contraction, or right-sized)?
- How does my category perform compared to its aisle-mates?
- If my category deserves space expansion, where will it take space from?
- Do all segments within my category grow at the same rate? If not, which ones deserve growth, while others maintain current footprint?
- Does my category have underperforming SKUs? Do they deserve space contraction more than other underperforming SKUs out of my category?

Category exploration

GOAL: Make the case to expand the Bottled Water category into the beverage aisle.

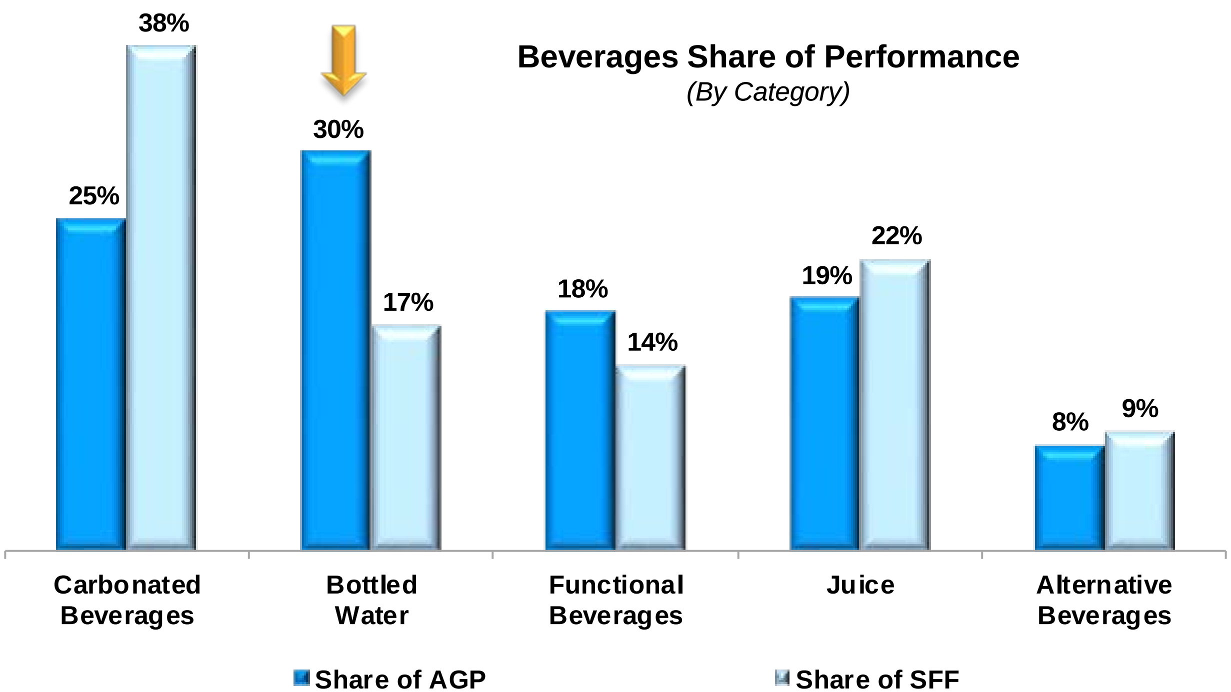
- Beverage categories explored include:
  - Alternative Beverages (RTD coffee, RTD tea)
  - Bottled Water (flat, mineral, sparkling)
  - Carbonated Beverages
  - Functional Beverages (sports drinks, energy drinks, hybrids)
  - Juice (shelf-stable juice, juice drinks)



Does my category deserve its space in aisle?

Bottled Water generates 30% of the beverage aisle true profits in just 17% of its space.

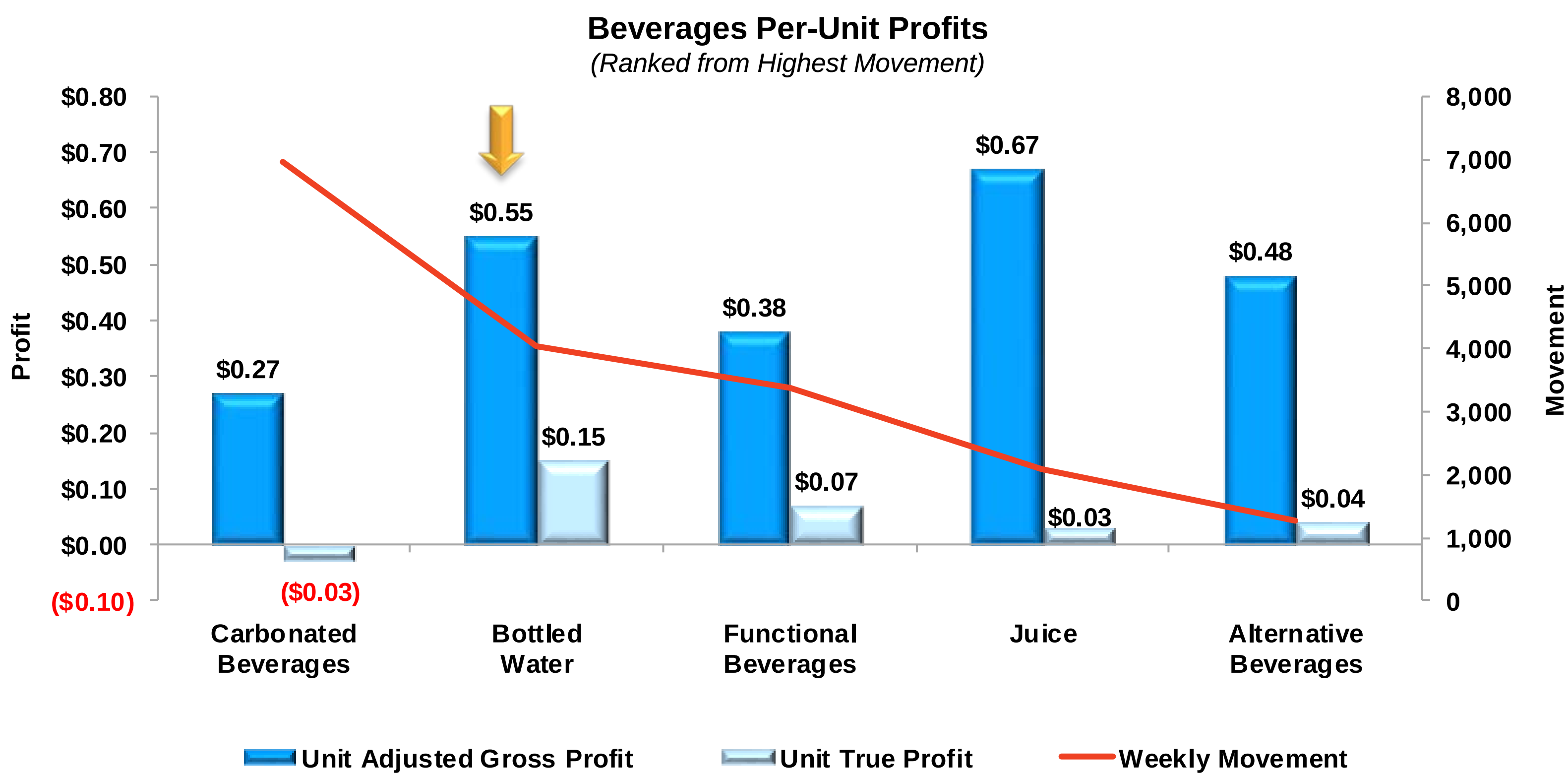
Categories like Carbonated Beverages, Juice, and Alternative Beverages take up a higher share of space than the profits they generate, making them likely candidates for space optimization.



What are the factors?

Bottled Water generates the highest true profit for every unit sold. Every time a Bottled Water SKU sells, it generates more profits than any other Beverage category SKU.

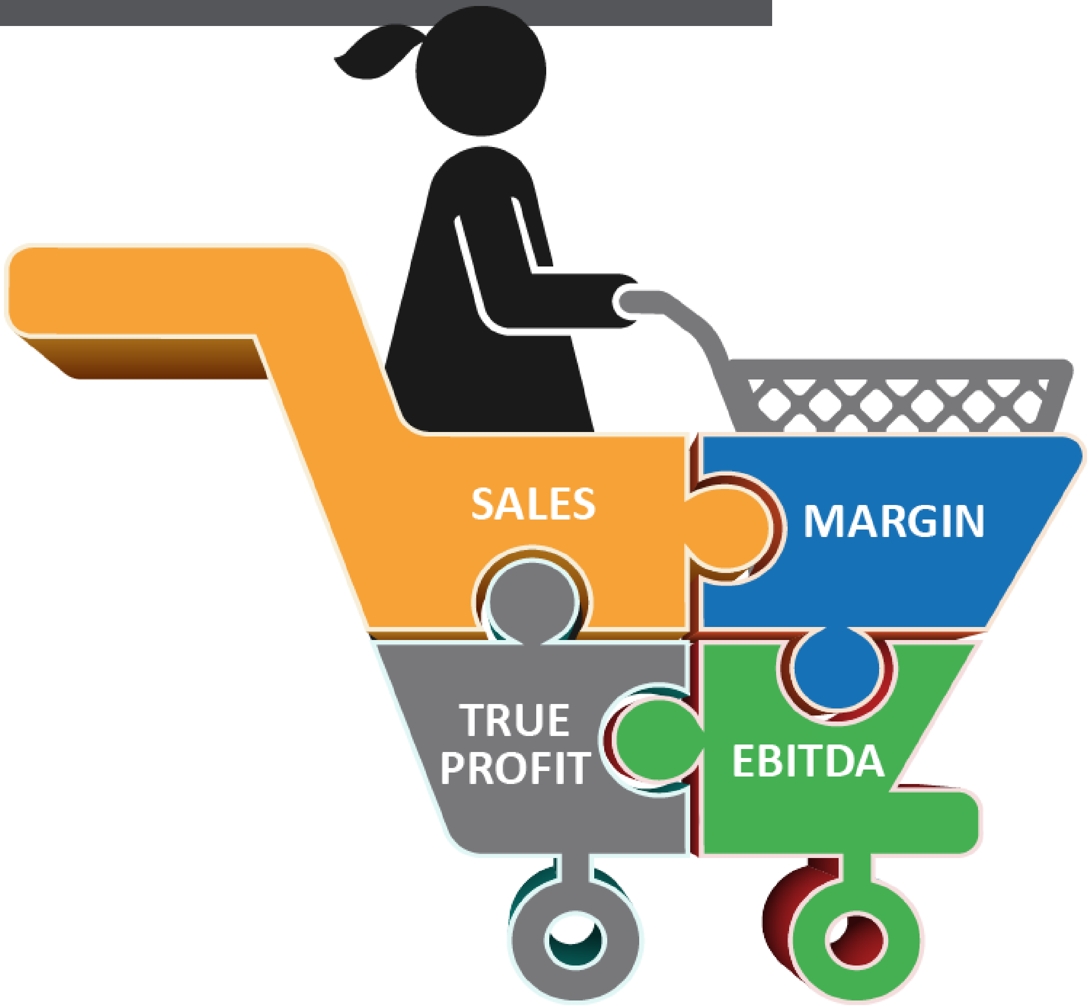
An average Carbonated Beverage SKU generates negative true profit, losing money for the retailer after accounting for operating costs.



Case Study Two

Secondary Placement:

Pizza Solution Center



Situation

Client is interested in developing a Pizza Solution Center within Grocery. and needs to develop insights on this proposed solution set and support its expansion in the Grocery department.

- ***Assumptions:*** Pizza Solution Center consists of ambient/shelf-stable items

- **Goal:** Flexible Pizza Solution Center able to fit in various aisles, depending on retailer. Data to show that select categories should be optimized for space and SKU assortment to make room for an expanded Pizza Solution Center.

Solution Center Scenario

We are summing the performance of these subcategories and comparing them against possible shelf competitors.

Because the pizza set consists of aggregates of multiple subcategories,
we'll use performance metrics with
a common denominator to fairly benchmark the pizza set to its space competitors.

Metrics include:

- Margin
- Per-unit performance
- Per-SFF performance
- Percentage of SKUs making money
- Percentage of SKUs generating 95% of sales

The Following Subcategories Make Up Our Pizza Solution Center

Category	Subcategory
Baking Mixes	Mixes Rolls or Biscuits
Barbecue Sauces	Barbecue Sauces
Canned Tomatoes	Tomato Diced
Canned Tomatoes	Tomato Sauce
Canned Vegetables	Artichokes
Canned Vegetables	Mushrooms
Dry Packaged Dinners and Kits	Pizza Pie or Crust Mixes
Oil	Olive Oil
Pickles and Olives	Olives Black
Pickles and Olives	Olives Green
Shelf-Stable Seafood	Canned Anchovies
Spices	Garlic Spreads
Spices	Seasoning Dry
Tortilla	Corn
Tortilla	Flour
Commercial Bread	Flatbreads
Bakery Bread	Flatbreads
Dinner Sausage	Dry Sausage and Pepperoni
Pasta Sauce	Grated Cheese
Pasta Sauce	Pizza Sauce

Aisle Competitors
Soup
Pasta Sauce
Pasta
Rice
Canned Vegetables
Dry Dinners Pasta
Canned Tomatoes
Potatoes Packaged
Dry Packaged Dinners and Kits
Shelf-Stable Entrees

Solution Center Performance

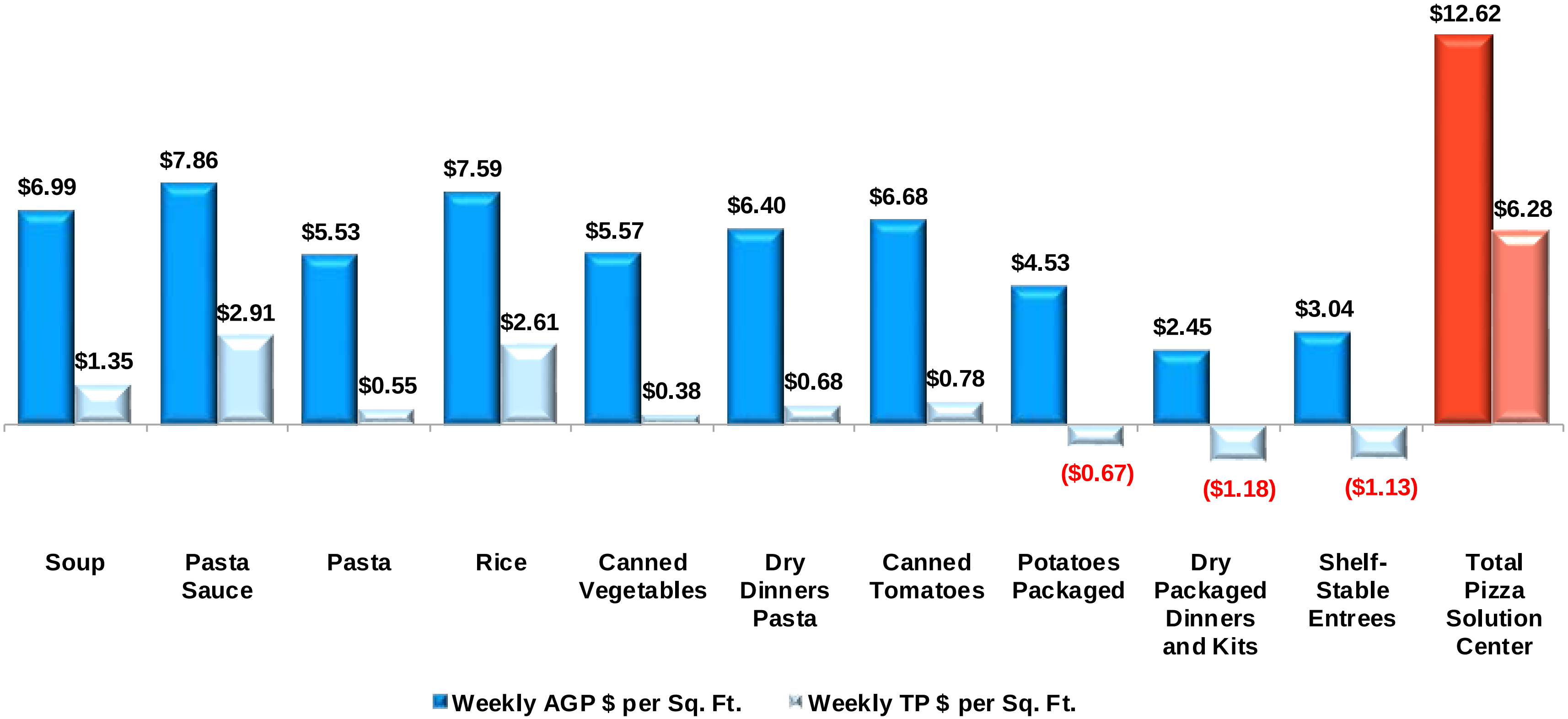
Pull same performance metrics for all the aisle competitors and place on same worksheet as the summed total Pizza Solution Center performance.

Subcategory	Weekly Sales	Weekly Adjusted Gross Profit	Weekly True Profit	Weekly Mvmt.	Unit Price
Canned Tomatoes	$1,686	$517	$60	1,649	$1.02
Canned Vegetables	$2,389	$703	$48	2,274	$1.05
Dry Dinners Pasta	$1,741	$407	$43	1,138	$1.53
Dry Packaged Dinners and Kits	$278	$69	-$33	163	$1.71
Pasta	$2,551	$790	$79	1,926	$1.32
Pasta Sauce	$3,217	$913	$338	1,374	$2.34
Potatoes Packaged	$373	$115	-$17	285	$1.31
Rice	$2,427	$779	$268	1,093	$2.22
Shelf-Stable Entrees	$165	$48	-$18	77	$2.16
Soup	$6,440	$1,881	$362	4,076	$1.58
Total Pizza Solution Center	**$1,288**	**$450**	**$247**	**505**	**$2.55**

More profit per square foot

Pizza Solution Center Aisle Profit Per Square Foot of Facing

(By Category, Sorted on Weekly Sales + Pizza Solution Center)

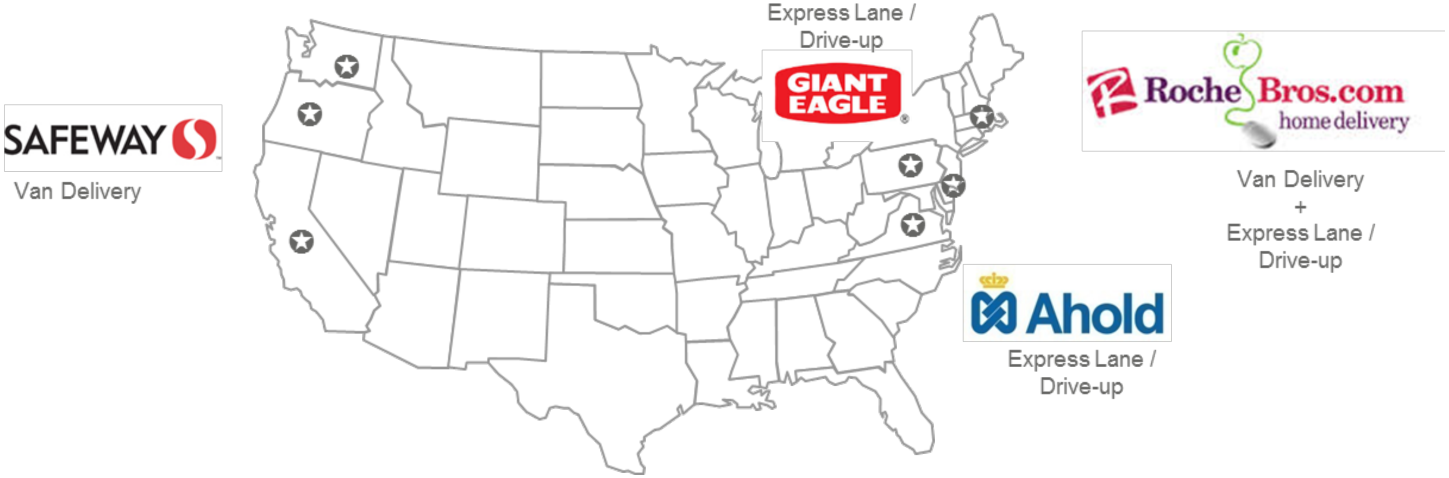


eCommerce SuperStudy™

Insight into Online Grocery Shopping

eCommerce *SuperStudy*™

- Four eCommerce Retailers and a Variety of Models
  - 8 States
  - +40MM Households, for 2 years



eCommerce *SuperStudy*™ Insights

General Learning

- Overview of economics
- How orders vary by program type
- What's working, not working
- How assortment impacts program success
- Implications for the future of online grocery

Category Performance

- Insights into what's selling online
- Visibility into the performance of every category
- Sales and profit benchmarks by week, order, household and unit
- Detailed review of eCommerce ABCs

Shopper Behavior

- Peek into how consumers are shopping for groceries online
- Understanding of online shopper engagement levels
- View into basket composition and category penetration rates by eCommerce program

eCommerce now 4% of brick-and-mortar store sales

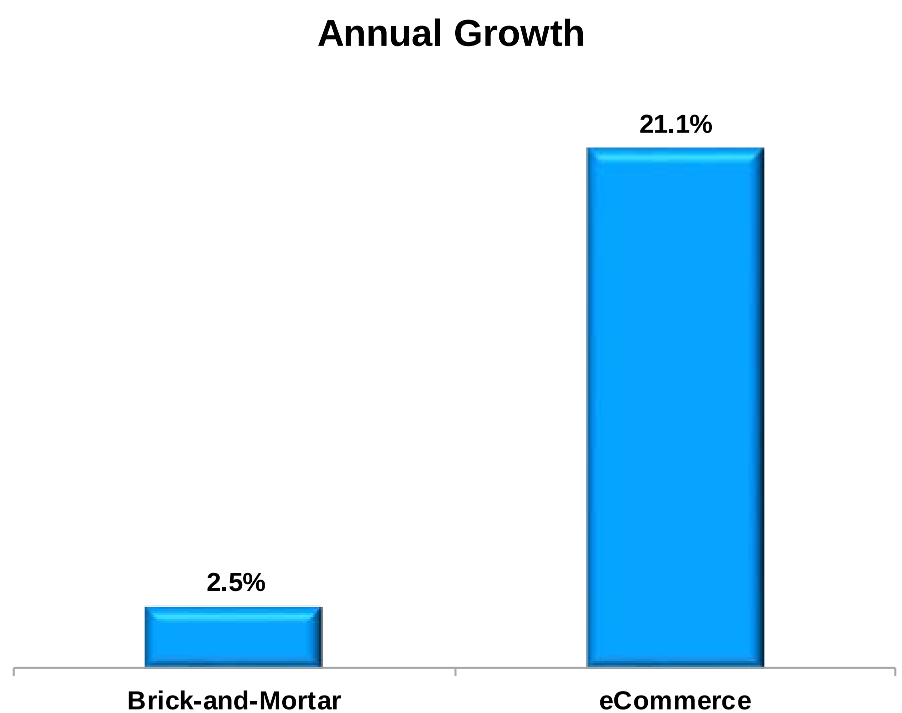
eCommerce Share of Brick-and-Mortar Sales Today*

4%

(For those stores that offer eCommerce)

Avg. 100-200 Orders/Store/Week
High = 500-1000 Orders/Store/Week

eCommerce growth 10X more



Source: Willard Bishop and eMarketer 2015

Who are the shoppers?

- A little over two percent (2.3%) of core brick-and-mortar (B&M) shoppers shop online today.
- Nearly one-third (32%) of their sales are online.
- One-in-four order at least once a month.
- For Express-Lane (Drive-up) programs, they are the soccer moms with two kids in the back seat.
- For Home Delivery programs, they skew more towards the elderly.
- Online shoppers are willing to pay for convenience, it's a lifestyle choice.

AARP®

Demand varies by program type

Top-Indexing Categories Online by Fulfillment Model

(Share-of-Sales Online vs. In-store)

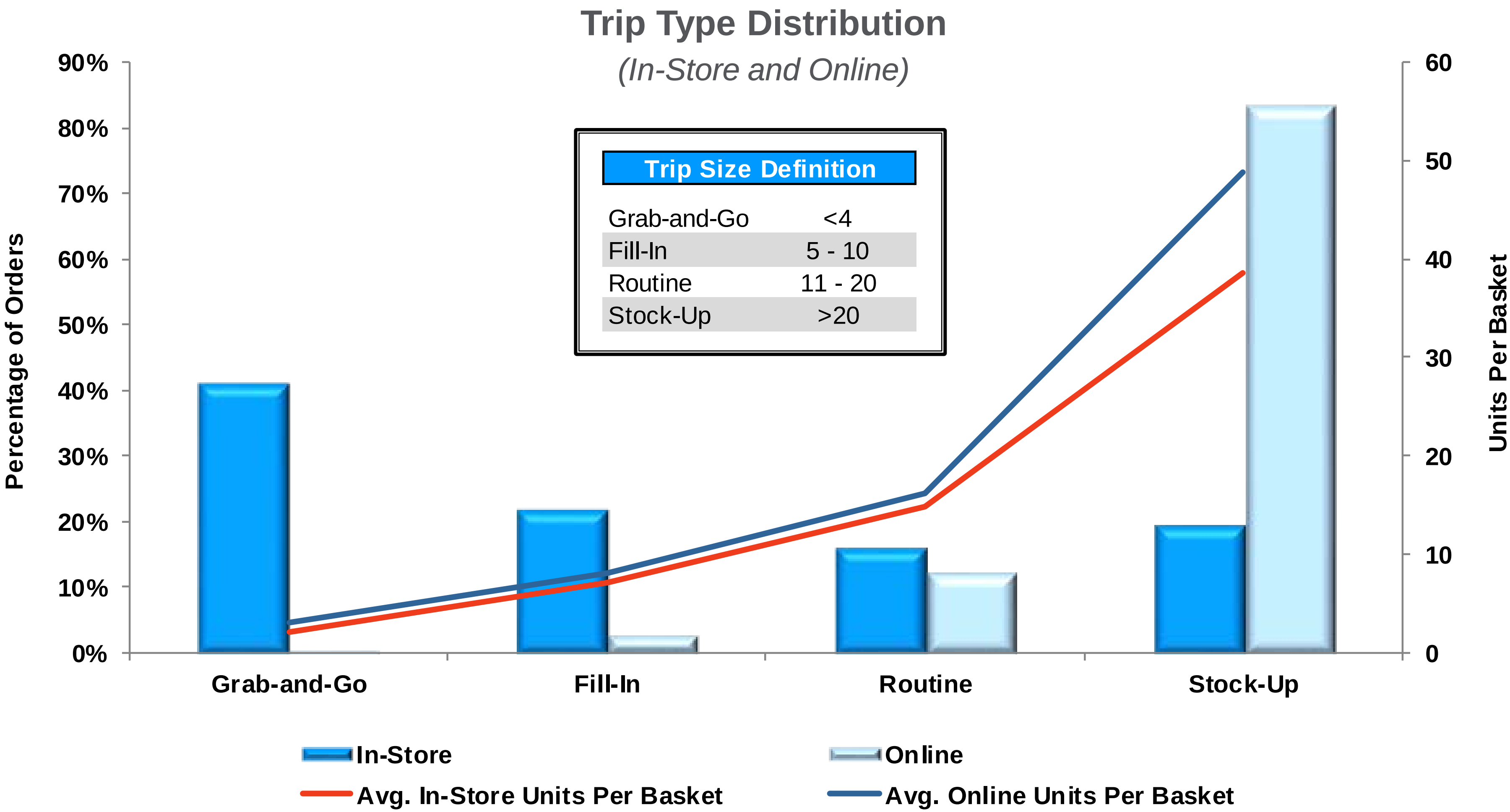
	Express-lane Drive-up	Home Delivery
1	Diapers and Training Pants	Shelf Stable Entrees
2	Baby Food	Incontinence
3	Baby HBC	Chili
4	Frozen Breakfast	Single Serve Meals
5	Canned Pasta	Canned Meat Hashes and Stews
6	Lunch Combos	Bottled Water
7	Shelf Stable Milk and Milk Like Bev	Tonic and Mixers
8	Canned Fruit	Snack Nuts and Dried Fruit
9	Frozen Vegetables	Meat Snack
10	Pancake and Waffle Mixes	Paper
11	Frozen Bake	Pickles
12	Syrup	Baby HBC
13	Dry Dinners Pasta	Lunchmeat
14	Frozen Potatoes or Onions	Salt
15	Fruit Snacks	Frozen Juice
16	Canned Tomatoes	Jelly
17	Yogurt	Canned Fruit
18	Refrigerated Baking	Cat Food
19	Misc Dairy	Shelf Stable Seafood
20	Pasta	Frozen Breakfast

Orders are large and consistent

- Online orders average 44 units per basket = +$140 before fees
- Orders are very similar across Brick & Click (B&C) grocery retailers
- They are 4X-5X larger than B&M orders
- Home delivery orders are slightly larger than express-lane pickup orders
- Ninety percent (90%) of orders are stock-up orders vs. less than 15% for B&M
- Stock-up orders average 50 units per basket
- Order size is consistent across all shopper RFMB segments (Platinum, Gold, Silver, etc.)
- Order size is consistent over time within HHs
- Order size is similar between trialists (38%) and loyalists (62%)
- Online shopping frequency = 16 days

Stock-up trips dominate

Nearly 90% of all online baskets are stock-up type trips.



Trip Size Definition	
Grab-and-Go	<4
Fill-In	5 - 10
Routine	11 - 20
Stock-Up	>20

Good portion of online shopping is incremental

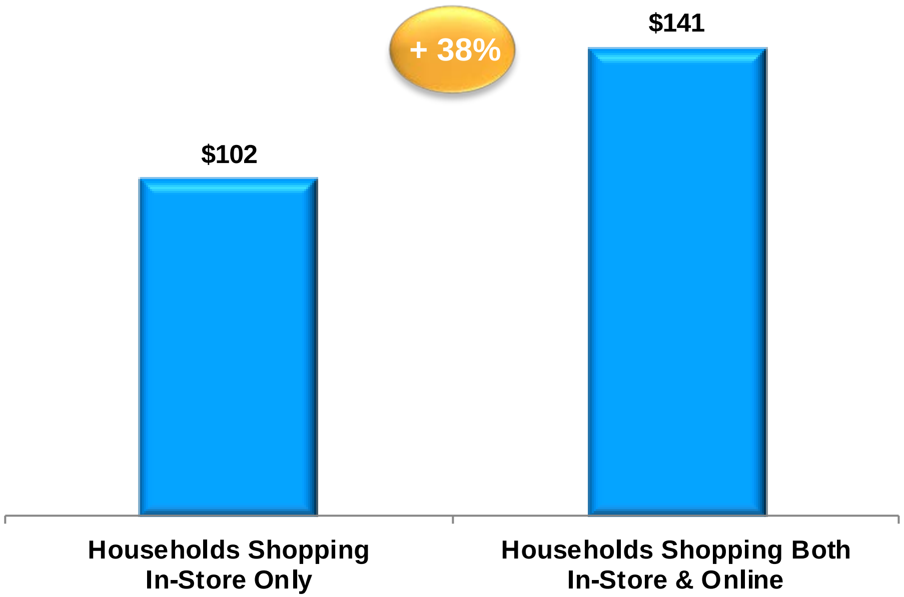
- Online shoppers prefer home deliveries over curbside pickup.
  - When given a choice, 73% of shoppers prefer home delivery versus express lane drive-up.
  - “If I have to go to the store anyway…”
- Significant portion of online sales are incremental.
  - Not sure how much is expandable consumption, probably small. Impulse and immediate consumption category sales are low.
  - Retailers see as an opportunity to repair leakage.
    - Categories they lost
    - Club packs (cube and weight)

eCommerce incrementality

Online shopping generates 38% more incremental dollars to B&C retailers.

Average Weekly Spend at Stores Offering Online Grocery Shopping

(Per Household)



Methodology – Analyzed in-store and online transactions for top shoppers (Platinum and Gold) over a 52-week period. Weekly spending averages were derived by household between the HH's first and last transaction.

Sample Size:
194 million transactions across in-store and online.

Source: Willard Bishop 2015 eCommerce SuperStudy™

Who is winning online?

- Food, Beverage, and GM are the big winners
- Many Food, Beverage, and GM categories are indexing 120-250 online vs. B&M
- Frozen and Refrigerated categories also doing well and over-index
- PL over-indexes across center store
- Fresh perimeter categories under-indexing
- HBC under-indexing
- The top-15 online categories are the same as the top-15 B&M categories

Assortment productivity

Less than half of SKUs available online cover 95% of demand.

Assortment Productivity

(By Retailer Participant)

e-Retailer	# Unique SKUs Ordered	% SKUs Ordered More Than 4X Over Year	% SKUs That Cover 95% of Demand
A	17,437	57%	60%
B	40,159	79%	44%
C	22,838	81%	46%
D	37,183	63%	47%
Average	**29,404**	**70%**	**49%**

Search engine used more to find products.

eCommerce is profitable…On a direct basis

- Fully-loaded, eCommerce programs lose money.
- On a direct basis (“touch labor”), they are profitable.
- D.C. programs are more profitable than store pick programs.
- The last mile is expensive.

MOST TO LEAST PROFITABLE ECOMMERCE FULFILLMENT MODELS

1. DC Pick, Home Delivery
2. DC Pick, Parcel
3. Dark Store, Home Delivery
4. Store Pick, Express-lane Drive-up
5. Store Pick, In-store pickup
6. Store Pick, Home Delivery
7. Store Pick, Parcel

CPG opportunities

- Develop a strategy to win with local grocers
- Get content right, a bigger issue than most people think
- Help retailers determine core SKUs and appropriate assortment ranges across clusters and fulfillment models
  - Right online package sizes
  - Case pack SKUs
- Support retailer digital coupon programs
- Begin incorporating eCommerce insights into your category reviews and JBPs
- Be prepared for discussions on COGS and trade
- Don’t forget the 3P platform companies like Unata and MWG
- Help them with taxonomy and search engine opportunities

Retailer opportunities

- Upgrade online systems and leverage better on-demand analytics
  - Help customers navigate more easily
  - Handle more complex promotions
  - Provide more targeted offers and personalized pricing
- Improve productivity in two key areas:
  - Store picking
  - Route optimization
- Start trimming back on variety
- Develop a seamless Omni-channel
- Brand and invest in your program, or outsource to 3P, don’t get stuck halfway

Q&A

It's Summer School for Success.
Courtesy of Inmar.

WEBINAR SCHEDULE:

Understanding Retailer Financial Metrics to Increase Sales
2:00 p.m EDT | July 21

2016 Mid-Year Promotion Industry Analysis
Where Are We Now?
2:00 p.m. EDT | July 28
2:00 p.m. EDT | August 2

Diversifying the Marketing Mix for Broader Reach, Deeper Penetration
2:00 p.m. EDT | August 11

Understanding the Shopper Journey to Optimize Marketing Spend
2:00 p.m. EDT | August 25

Attend all four webinars and be entered to win one of five free subscriptions to the Inmar Insights Package. (Value: $13,000)

For more information, or to schedule a *SuperStudy*™ demonstration, please contact:

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