

Best Practice Deal Management

Effective Deals vs. Dreadful ROI

Supermarkets spent \$38 billion on “bricks & mortar” between 1990 and 1996 to enlarge stores from 19,000 to 35,000 square feet. Massive inventory investments were then made to fill-up this new space by increasing SKU count from 11,000 items to 25,000.

The result? *No new sales*, in constant dollars — even though USA population grew 6%! Market share dropped 5%. Profits plummeted more than 20%.

Those who cannot remember the past The 1990-1996 disaster, quantified in Figure 1, is part of an industry long term “re-invention” summarized in Figure 2. The inflation analysis in Figure 3 drives home the enormity of the sales decline. Their every attempt to grow organically stymied, chains turned to *buying* share. The late 1990's saw merger and acquisition frenzy. But acquisitions do not grow industry or same-store sales. At best, certain efficiencies may be achieved. Effectiveness, though, requires new skills.

Fundamental challenges confront supermarket Merchandising Departments. Can the huge brick, mortar, and SKU investment be salvaged, or somehow leveraged for a new period of growth? Can the industry exceed population growth to recapture sales lost in the 1990's? Can the real 1% growth of 1997-98 be maintained?

The old tools didn't work; what new tools might?

First, what didn't work?

Vendor Deals. Neither better nor more frequent vendor deals created growth from 1990-96. Deals are

available to all in a trading area. Vendors saturate market areas to get 50-70% coverage.

Sharper deals are more myth than reality. Dismal trends indicate no extra sales here.

Local Trading Areas (circumvent Robinson-Patman). Mer-

chandisers tried to change manufacturer deals or go outside their trading area. Their quest lead to “gray” market goods, deductions, and forward-buying.

Despite its creativity, the game failed to build *industry* sales.

New Products. Vendors averaged 18,000 new product/item introductions per year¹ in the '90's — without incremental impact on supermarket trends.

Format	'80	'96
Conventional	73	23
Superstore	18	42
Combo	4	20
Warehouse	4	8
Super W/H	1	5
HyperMart	—	2

Figure 2

	1990		1997		Change		Food Sales
	\$	\$	\$	\$	% cum	% year	\$ per capita indx
Purchasing Power of Dollar							
CPI '82-'84 = \$1.00	0.766	0.623	0.143	-18.6	-2.7		
Weekly Food Cost — bought at store, prepared at home							
Family of 1	44.82	53.58	8.76	+19.5	+2.8	53.58	168
Family of 2, age 20-50	74.70	89.30	14.60	+19.5	+2.8	44.65	140
Family of 2, age 51+	71.80	86.00	14.20	+19.8	+2.8	43.00	135
Family of 4, 2C <6yrs	106.60	127.30	20.70	+19.4	+2.8	31.82	100
Family of 4, 2C >6yrs	128.30	152.90	24.60	+16.1	+2.3	38.22	120

Source: Commerce Dept. — “Moderate” Plan. Different costs for Thrifty, Low Cost, Liberal plans — but trends are virtually the same.

Figure 3

	1990	1996	change %
sales ('90 dollars)	\$ 260B	\$ 260B	0
sales ('96 dollars)	302B	302B	0
projection (adj. for inflation & population growth)		318B	
share decline ('% dollars)		\$ 16B	-5
store size, ft ²	19,000	35,000	+84
SKU count	11,000	25,000	+127
pre-tax %	2-3%	1.8-2.3%	-21

Figure 1

Category Management was another sinkhole with dreadful ROI. Bitter experience taught practitioners that this hot, new fad is virtually worthless without consumer impact data.² Bizarre concepts such as *ingredient commonality* might have been nipped in the bud had consumer data been available.

Large Chain Category Management did not produce major benefits either. Vendor research and

²See FMI Customer Relationship Management White Paper

¹Source: New Product News

marketing staff worked with retail category managers to select brands, packs, sizes to optimize category growth. This often failed because omnibus categories were too large and ill-defined to serve as *markets*.

Progressive Grocer's criteria might work. But, 645+ categories result — contrasted with 40 to 100 used by Category practitioners. Is the "Beverage Category" 1 or 21 categories? Are tea and chocolate comparable to soft drinks?

Can a chain appointing Pepsi as Category Manager count on quality advice about mineral or distilled water? Sports, fruit, powdered, and boxed drinks? Beer and wine?

Tackling 645 categories doubles or triples merchandising staff to deliver timely analysis and decisions.

What deserves a second look?

Return to basics! Return to the chain's entrepreneurial, founding vision and invest accordingly. Early visions are almost always service oriented. "Give 'em what they want. Locate stores nearby." Wants, though, evolve with wealth, mobility and family trends.

Grocery consumers³ have changed in important ways affecting purchase behavior. Tracking such changes requires different systems

Channel Preferences						
Index 1989			Index 1994			
Safeway		Cub	7-11		Safeway	
18-24	97	163	176	79	66	170
25-34	116	91	134	98	132	138
35-44	92	131	111	116	97	109
45-54	99	94	92	103	101	95
55-64	109	72	65	90	123	56
65+	82	75	40	98	66	43

Source: MRI, Inc.

Figure 5

³Wal-Mart grocery sales grew \$30B while supermarket share shrank \$16B.

than are now in place. Ironically, such tracking systems are available *free* to chains investing in front-ends.

A *very* tough stand, however, is the first step to recovery.

Think National Trading Area (exploit Robinson-Patman).

Wal-Mart's \$53 billion of grocery sales may explain supermarket share loss.³ A first step might be to level the playing field by setting-up a buying office in Bentonville, Arkansas. (The most logical reason Wal-Mart offers same items at half the price of supermarkets is that they receive a lower price.) Chains with Bentonville buying offices will get Wal-Mart prices — or have great Robinson-Patman fun.

Demographic Research — building or stumbling block? What's *free* is incomplete and misleading; what's *complete* is insanely expensive — if traditional vendors are used.

Trade publications offer free market-wide demographics for areas as large as CMSA's. But chains compete in *portions* of CMSA's. Demographics for portions are not identified.

If a CMSA averages \$35,000 family income, what do the *chain's* customers earn? *Someone's* customers earn \$20,000, and \$60,000.

High income folks make different grocery choices than mid and low range earners. Family structure/ income data, a key predictor of purchase

Family Structure		
Segment	% Share	
	'70	'97
Married	74	60
with kids	--	--
w/o kids	--	--
Ex-Married	12	17
with kids	--	--
w/o kids	--	--
Never-Married	14	24

Source: Commerce Dept.

Figure 4

behavior, is completely absent in classic demographic analysis. Basing merchandising decisions on married households as a norm — marketing to a universal audience — worked until the '70's. Today, a five part classification grouped by income is needed — Figure 4.

Married households still lead. But, 41% of all households are now *non-married*. Can a chain with 35% of its customers ex-married — divorced with children — succeed with "premium price/variety" in all its stores? Why use zone pricing if these customers aren't wanted?

Macro-demographics is also a powerful tool to identify *channel* preference. Why do supermarkets lose sales to convenience stores and warehouse markets? Figure 5 compares a conventional grocery chain's demographics to competitive channels over a 5 year period.

36 Major Promotional Techniques	
Consumer Promotions	Trade Promotions
Factory Packs	Vendor Generated
1 Off-Label	1 Merchandising Performance
2 Bonus Product	2 Purchase Performance
3 In/Out Premiums	3 Count/Recount Allowance
4 Re-usable Container	4 Display Allowance
5 Coupon	5 Buying Allowance
6 Cross-Ruff Coupon	6 Display Promotions
7 Multiple Unit	7 Trade Premiums
8 On-Pack Instant Redeem	8 Free Goods
	9 Co-op/Accrual Allowance
Couponing & Sampling	10 Trade Contests/Loaders
1 Mail Coupons	11 Special Terms
2 Cross Ruff Instant Redeem	
3 Media Coupons	Retailer Generated
4 Out-of-Pack Promotions	1 Hi/Lo discount prices
5 Mail-in Promotions	2 Everyday Low Price
6 Contests/Sweepstakes	3 Multiply Vendor Coupon
7 Group Promotions	4 Community Benefit Promotion
8 In-register Coupons	5 Store Broadcast/Print
9 In-aisle Coupons	6 Loyalty Programs
10 Product Sampling	7 Discontinued Products

Source: Independent Research

Figure 6

Six Vendor Objectives

Trial to persuade non-users to try it once, hoping for repeat sales. Appropriate for a: new brand in an existing (cake mix) or new (whole bean specialty coffee) category; demonstrably improved brand (instant potatoes); brand in a low household penetration category (fresh dough); seasonal brand to re-acquaint users (charcoal, insect spray).

Breadth of Purchase to get as many category users as possible to buy the product during the promotion. Used for: commodities (flour, sugar); brands that the Trade historically supports with promotions (top 200 brands); broad acceptance item — an alternative for a broad spectrum of consumers (spaghetti).

Loading to get category users to buy as much as possible during the promotion. Best for: brands consumers purchase in large quantities (powdered soft drinks); where a competitive threat exists; where consumption rate increases with purchase increase (soft drinks).

Continuity of Purchase to get consumers to make a number of sequential purchases. Best for: heavy usage brands with sufficient profit margins to support continuity promotion; non-merchandise brand — too small to obtain retail support, and for which Breadth of Purchase is inefficient (tenderizers, MSG, honey); single purchase brands which cannot obtain multiple purchase due to usage patterns or danger (rat poison).

Expand Product Usage Areas to get consumers to use the brand in more ways or places. Best for: high share brands which have achieved most of their primary use potential (baking soda); opportunities for secondary placements (liquid sweeteners).

Reinforce Ad Copy. Low-key, infrequently used to reinforce advertising messages to consumers. Appropriate for brands facing in-home competitors — where copy related promotion can create additional usage (cleaning aids).

Source: Independent Research

Figure 7

Younger shoppers show persistent preference (high index) for Cub Foods and 7-11. Interest is apparently maintained as they age. Researching the group should identify problems that, once resolved, could lead them back to supermarkets.

Is traditional store location demographics insanely expensive? You bet! Ten store chains spend \$120,000 per survey — assuming 120 store/competition interviews per store at \$100 per intercept. Four surveys per year cost \$480,000. This only buys half hour interviews — restricting questions to attitudes about the chain, not key problems causing customers to shop multiple chains. Asking brand, pack, size preference for 25,000 SKUs adds 14 hours to each ½ hour interview.

Surveys take 2 months to field, 2 to analyze, and another 2 to implement. By then the problem isn't selling *Kool-Aid* — it's how to move fruitcakes! So, chains spend little on research. Differentiation decisions lack empirical support. Small wonder the industry has excess capacity and sales declines.

In-store Demographic Research. Ironically, the *best* is free. Advanced store management systems, such as MicroNEX[®] CRISP[™] automatically produce research analysis as a free byproduct when checkout lanes are used². The systems enable chains to administer *differentiated* shopper programs in realtime.

Vendor Deals. With the average chain reviewing 45,000 promotion opportunities annually to select 16,000, there's lots of choice — seemingly myriad alternatives. Vendor objectives differ from chains'. Understanding the game — and vendor agendas — helps buyers do what's best for the chain.

Promotional techniques boil down to about 36 types,⁴ see Figure 6. Vendors, however, use promotions to support a mere six objectives, Figure 7.

Most vendors believe long-term sales growth depends on consumer *advertising*. *Promotion* is used to: accelerate sales success; get full value from media; and, cope with competitive problems. While volume is important, vendors strive to reach their best customers. Shouldn't chains?

Build franchise with desired consumer groups, by welding demographics and deal insight. Identify consumer groups to *dominate*. Focus merchandising effort, repeatedly, on them. De-emphasize groups that cannot be dominated — dollars spent here earn *dreadful* ROI's.

Sell or exchange stores weak with prioritized groups. Choose new sites by proximity to desired groups. Base *all* merchandising decisions, especially deals, on preferences of desired groups.

Realtime reporting and control — integrating data gathering and analysis with operations — is key.⁵ Analysis is based on consumer sales, not warehouse orders. Paralyzing delay is eliminated.

Target Marketing fixes traditional loyalty programs. Loyalty programs help retain customers, not attract new ones — Safeway and Weis returned to media ads.

⁴Descriptions and uses of 36 techniques available upon request.

⁵See FMI *Realtime Supermarket Reporting & Control* White Paper.

Loyalty programs are typically homogeneous, one shoe for all cardholders. Little is known of cardholder demographics or product preference.

Target marketing is a return to “give ‘em what they want.” *Demographics* segments the market. *Product preference* is used to induce purchase behavior. They work hand-in-hand with chain strategies for: location, SKU, advertising, pricing, convenience, and *especially* deals.

At what cost?

The bad news is that warehouse, backroom, and frontend operations must be seamlessly *integrated*. “Demand pull,” rather than “supply push,” thinking and operations must be embraced.

There is good news, too.

Practical, scarred knuckles/gray hair, strategy and implementation planning assistance is available from management consultants such as Strategy Partners Group. Operational savings — in Replenishment, Deal Overrun Control, and Management Accounting — recapture system investment within a year where normal competition prevails. *Target marketing*, itself, is a *free* byproduct of advanced, realtime system use.² And, chains can outsource any part, or all, of these operations to firms such as IMG.

Automated Receiving. Although trucks can be unloaded in an hour, verifying PO’s, credits, and shorts may take four hours. Automated receiving compresses the four hours to one. Cases, without regard to pick order, are scanned, automatically reconciled, and added to computerized in-store inventory.

Automated Ordering. Traditionally, store personnel “walk the aisles” making orders to fill slots predicated on past warehouse orders without regard to consumer takeaway. Shelf, display, and backroom inventory for 25,000 items was unknown at headquarters.

Automated in-store systems order automatically as inventory reaches pre-set levels. Service factors, translated into reorder levels, are continually reset for each SKU in response to target group preferences and recent trends.

Deal Overrun Control. Overruns eat 17% of an average chain’s pretax profits. Advanced systems better forecast promotion week sales, sharpen ordering accuracy, accelerate vendor payments, evaluate buyer effectiveness, and support merchandising initiatives.

They also support *multiple* control strategies. Perpetual in-store inventory helps: set aside sufficient promotional stock to replenish shelf stock sold at promotional pricing; and, ship mid-week promotional items only to stores projecting stockouts.⁶ Potential overruns, predicted by realtime takeaway during promotions, help managers take such corrective actions as: reorder promotion; remove displays; let stocks run-out; return to regular pricing when deal stocks — and only deal stocks — are exhausted.

Promotion Week P&L’s by chain, store, department, and deal/no-deal are available next morning with advanced systems.⁵ Realtime management reporting and control is made possible by tying registers directly to the chain’s general ledger. Corrective action, based on hard numbers, can be taken now!

Cultural obstacles.

Culture is a bigger obstacle than cost. Legacy mainframe and warehouse withdrawal mentality bears much responsibility for negative industry ROI. Neither distinguishes *sales* from *unsold cases* shipped to stores.

Worse, neither distinguishes between customer types. Some types of consumers are using supermarkets less. This is a *consumer* problem! Consumer problems aren’t fixed without information about consumers.

Further evidence of inadequacy is provided by the culture’s inability to answer key questions. “What stores are long/short on feature items midway through the promotion week?” “Which stores made a profit on last week’s sales?” Other questions take a month or quarter to answer. “Are feature items generating Planned non-deal sales?” “Why/Why, not?”

Monthly reports *co-mingle* results from 4 promotions; quarterly reports mingle 13. Both *obscure* data needed to evaluate specific strategies. Neither “gets at” customers.

Management’s hands are tied without realtime data on inventory, takeaway, and consumer identity— which compounds implementation problems and hinders the ability to extend success.

In Summary.

The Universal Market is dead. Chains can no longer “give *everyone* what they want.” Groups that *can* be satisfied must be *targeted*.

Continuous demographic analysis is key to selecting the right groups, measuring preferences, and evaluating their response to chain performance. Doing without, invites dreadful ROI.

Advanced systems are required to integrate register, demographic, inventory, and accounting functions. The best, such as CRISP, offer built-in research and analysis.

Compared to bricks and mortar, the cost is modest — with superb ROI!

Call FMI at (561) 747-9450 about information “partnering” for better deals.

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⁶ *Controlling Deal Inventories.*