



Fresh Market Manager & Fresh Item
Management

Winning With Perishables in a “Value Retailing” World

Abstract

This white paper provides information on why fresh item management (FIM) is critical to winning in a retailing environment that is consolidating towards value retailing. In addition, Fresh Market Manager (FMM) and Profit Optimization Methodology (POM) are introduced as the preferred FIM technology and organizational behavioral change platforms.

SUMMARY

PROMISE	"Fresh Item Management (FIM) will make me competitive in today's environment!"
REALITY	Most FIM initiatives fail to effectively deliver the promised results or struggle to get off the ground.
PROBLEM	How do I successfully deploy an FIM initiative throughout the organization to position me better for the changing retailing environment?
SOLUTION	FIM is often approached from an IT-centric perspective, but an approach must also be based on a change management platform to modify the behavior of the organization to accept FIM. In addition, an initial category management phase is required to produce the optimal return on investment.

WHAT CHALLENGES ARE YOU FACING TODAY?

In the past ten years, value retailers have grown faster than any other retailing format. From 2001 to 2004, value retailers increased their domestic grocery market share from 21% to 25%. By 2015, value retailers will own approximately 35% of the U.S. grocery market and Wal-Mart will control 20% in every state (Source: 2005 McKinsey & Company).

In addition, such center store categories as dog food, paper products, skin care, makeup, cleaning supplies, etc. have become "value" categories. It is nearly impossible for a traditional grocery enterprise to create merchandise authority in a category once it has moved over to "value."

From 2002 to 2005, the number of consumers stating that they do not shop at value retailers because of a lack of quality fresh offerings has dropped from 7% to 1% (Source: 2005 McKinsey & Company).

Park City Group believes that going forward; the battle ground between value retailers and traditional grocery enterprises will be in the store perimeter, namely the perishable departments.

An ACNielsen study dated 2005 states that grocery trip erosion is continuing while supercenters and warehouses gain ground. They further state that there is opportunity for trip capture. Such trip capture strategies include focusing on the customer to deliver what they want and when (the right product, in the right quantities, at the right time), perform on the perimeter, and differentiate.

WHAT STEPS DO YOU NEED TO TAKE TO SURVIVE AND THRIVE?

1. Differentiate your brand by creating merchandising authority in high-quality fresh food offerings.
2. Get credit for value delivered by strategically using promotions to build category sales, but not over-promoting which destroys pricing power and erodes profitability.
3. Work customer back by delivering the right product, at the right time, in the right quantities to exactly match consumer demand.
4. Reshape the organization to deliver by becoming assortment architects and not item pickers.

Taking the highlighted steps above will require an **FIM technology component** and an organizational **change management platform**. Doing business the old way will no longer suffice – everyone from the store associate to the CEO must become aligned.

Park City Group's FIM technology solution is called Fresh Market Manager and is composed of 3 components:



Each component is required and must be completed in the sequence as illustrated. The first component, **category management, is an essential precursor to production plans, forecasting, and computer-assisted ordering (CAO)**. Simply starting in the second or third components does not solve the problem of delivering the right product to consumers nor help the company plan for the right assortments and variety for each store or store cluster. Going out of sequence and stepping first into production planning and/or ordering will only automate the assortment and merchandizing errors already existing at the stores. It is **vital that the grocery enterprise become assortment architects to establish merchandizing authority in fresh food offerings** to build the brand, improve customer satisfaction and loyalty, increase “multiple visit per week” perishable shoppers, and improve profitability.

The change management platform from Park City Group is a companion deliverable to Fresh Market Manager and is called “Profit Optimization Methodology (POM).” POM is a set of co-deliverables that will be executed by both Park City Group and the customer. POM will start once the first component of Fresh Market Manager (Category Management) is deployed and operational. POM includes the following tasks:

- Work together to identify the key KPI's that will be used to measure the fresh food store offerings
- Once the key KPI's are identified, establish a baseline set of KPI's detailing historical performance of the current fresh food store offerings
- Identify a set of test stores and work to improve their fresh food offerings using the baseline KPI's as measurement
- Park City Group and the customer will work together starting on a weekly basis using the Fresh Market Manager category management tools to improve the fresh food offerings. Things that will be covered and analyzed include such topics as:
 - Top sellers (categories and items)
 - Bottom sellers (categories and items)
 - Top profitable items (CTP)
 - Money losing items (CTP)
 - Day-part analysis (item movement throughout the day)
 - Out-of-stock conditions
 - Over-produced items
 - Variety planning
 - Pricing power opportunities
 - Merchandising strategies
- The objective of POM is to give everyone (department managers, store managers, division managers, merchandisers, category managers, up to the C-level) in the organization the ability to answer these three questions about their perishable operations:
 - What happened yesterday?
 - Why did it happen?
 - How will we make it better?

When everyone in the organization, especially at store level (where execution is critical), thinks of their business in terms of the three questions detailed above; the behavior in the organization has changed and employees no longer think of FIM as a controlling tool, but an enabling technology to help them in their jobs.

WHAT IS FRESH ITEM MANAGEMENT?

Fresh item management is all about:

- Improving customer satisfaction and loyalty
- Increasing “multiple visit per week” perishable shoppers
- Substantially improving profits by:
 - Increasing sales
 - Reducing undesirable shrink
 - Forecasting item demand for improved production management and ordering

**The bottom line: FIM can generate \$100,000 or more in additional profits per store
(Source: 12/2004 AMR)**

WHAT IS FRESH ITEM MANAGEMENT NOT ABOUT?

Fresh item management is not about:

- Shrink management reduction (too much shrink control will collapse sales and reduce customer satisfaction)
- Only production plans and CAO (without category management as the first sequence in a FIM initiative – you will be operating blindly and not knowing if you are satisfying consumer demands)
- Deploy fresh item management technology without an organizational behavioral change management platform (users will perceive FIM technology as overly controlling and will revolt)

WHY DO MOST FRESH ITEM MANAGEMENT INITIATIVES FAIL OR STRUGGLE TO GET OFF THE GROUND?

1. Questioning results that seem too good to be true
2. Faltering due to fresh item category management complexity
3. Debating whether to start with category management, production planning or CAO
4. Resisting technology and change

(Source: AMR December 2004)

WHY HAVEN'T FRESH ITEMS BEEN MANAGED OPTIMALLY?

1. Managing perishable departments is very difficult. Unlike center store, perishable items have a number of attributes including shelf-life, pack-sizes, recipes and ingredients, production labor, variety planning, and day-part movement. Taking all of these item variables into account drastically compounds the ability to effectively manage a perishable department without some form of technology assistance.

2. No technology solutions have been available until now
3. Without the right tools and methods – you will be missing opportunities to optimize profitability in perishable departments
4. Inability to answer such questions as:
 - a. What is my shrink by item by store on a daily basis?
 - b. What are my lost sales from out-of-stocks?
 - c. What is the true profitability of perishable items (fully cost loaded)?
 - d. What should I make and when – store by store?
 - e. What are the appropriate batch and pack sizes?
 - f. Should I cycle bake?
 - g. What impact do promotions have?
 - h. What is the actual breakdown of sales for items with a variety of flavors (such as bagels or muffins)?

THE SOLUTION: FRESH MARKET MANAGER

Fresh Market Manager (FMM) is a fully integrated, end-to-end suite of software applications that manage perishable items in retail environments. The software enables category analysis and precise item management, in-store forecasting and production planning, computer-aided ordering, perpetual on-hand inventory, and real time alerts. Additionally, Fresh Market Manager provides accurate cost of goods sold, sales profitability analysis, gross profit, and net contribution by item.

Category and Product Management are optimized using most current data and actual item contribution through Fresh Market Manager. Combined with automated production, FMM insures that variety and item freshness increase while overall shrink and waste decrease.

Information access and visibility of key business indicators throughout the organization will be made available through the implementation of ScoreTracker. ScoreTracker provides detailed views of region, store and item level movement including Contribution to Profit, Costs per Item Sold, Shrink Percentages, etc. These views are captured on a monthly, weekly, and daily basis and are created in spreadsheet or graph form. Query, “drill down”, and trending capabilities probe any performance indicator, quantifying its effect on operating results.

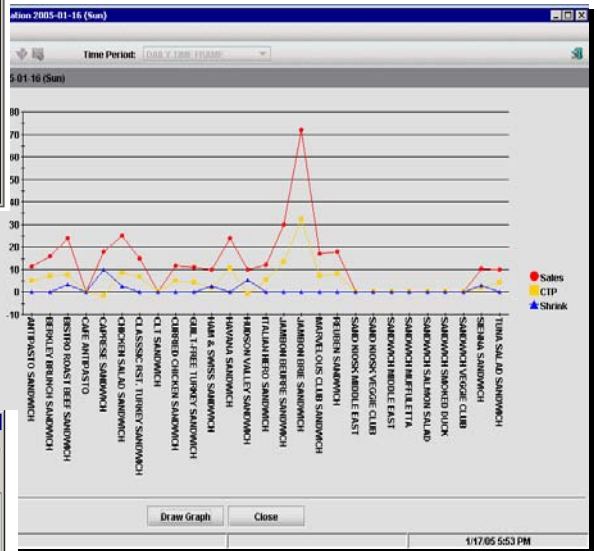
The net result is more efficient and effective information about what is moving and what is not moving throughout the supply chain. These views provide opportunities to reduce out-of-stocks, manage shrink, and increase opportunities for true profitability.

Production plans deliver to store associates what products to make, at what quantities, and at what times.

Name	Actual Qty	Plan Qty	Unit of Measure	Time	Status
9" PEACH PIE (425)		4	EACH	Time: 11:45 AM	▲
HALF PINA COLADA (127)		2	EACH	Time: 01:15 PM	▲
SUGAR COOKIE		1	EACH	Time: 02:15 PM	●
12" CHOC. CHIP COOKIE (467)		3	EACH	Time: 02:30 PM	▲
ASSORTED CLP CAKES (389)		72	EACH		▼
		21	EACH		▲
		4	EACH		▲

Organizational Structure	Sales	CTP	CTP %	GM	GM %	Food Cost	Food Cost %	Shrink
Store 120 - Swansea	\$2,569.53	\$937.42	36%	\$1,184.30	46%	\$1,385.23	54%	\$139.1
Bakery	\$2,100.14	\$721.36	34%	\$956.10	45.5%	\$1,144.04	54%	\$139.1
Deli	\$0.00	\$0.00	0%	\$0.00	0%	\$0.00	0%	\$0.0
Seafood	\$469.39	\$216.06	46%	\$228.20	48.6%	\$241.19	51%	\$0.0

Quickly expose outlying variations in store groupings, stores, and departments.



Trend data to evaluate problem or success occurrence and whether one time or reoccurring.

Organizational Structure	Sales	CTP	CTP %	GM	GM %	Food Cost
Store 120 - Swansea	\$2,569.53	\$937.42	36%	\$1,184.30	46%	\$1,385.23
Bakery	\$2,100.14	\$721.36	34%	\$956.10	45.5%	\$1,144.04
All Plant Items ordering only	\$0.00	\$0.00	0%	\$0.00	0%	\$0.00
Bagels	\$56.39	\$19.99	35%	\$37.21	65.9%	\$19.1
In Store Produced	\$56.39	\$19.99	35%	\$37.21	65.9%	\$19.1
Fresh Baked	\$56.39	\$19.99	35%	\$37.21	65.9%	\$19.1
APPLE CINN. BAGEL	\$0.90	-\$0.13	-14%	\$0.46	51.6%	\$0.4
ASSORTED BAGELS	\$0.00	\$0.00	0%	\$0.00	0%	\$0.0
ASST. BAGELS	\$0.00	\$0.00	0%	\$0.00	0%	\$0.0
BAGEL SPECIAL	\$29.00	\$19.59	68%	\$22.80	78.6%	\$6.2
BLUEBERRY BAGEL	\$2.77	\$0.94	34%	\$1.43	51.6%	\$1.3
CHEESE BAGEL	\$5.04	\$1.82	36%	\$2.70	53.6%	\$2.3
CHERRY BAGEL	\$0.79	\$0.27	34%	\$0.41	51.6%	\$0.3
CHOC. CHIP BAGEL	\$0.89	-\$0.13	-15%	\$0.46	51.6%	\$0.4
CINN RSN BAGEL	\$2.12	-\$1.23	-58%	\$1.09	51.6%	\$1.0
CORNITZEL BAGEL	\$0.00	\$0.00	40%	\$0.00	60%	\$0.0
CRANBERRY BAGEL	\$0.00	\$0.00	0%	\$0.00	0%	\$0.0
EGG BAGEL	\$1.52	-\$0.29	-19%	\$0.82	53.6%	\$0.7

Drill down to category or item level to understand the causes that underpin the data.