

Keeping Up with the Big Boxes

Grocers Pursue Strategy of Strategic Differentiation

BY DEB NAVAS,
CONTRIBUTING EDITOR

Big box superstores such as Wal-Mart, Target, and Costco, as well as grocery-selling drugstore chains, have gained enormous marketshare in the grocery industry, causing many independents and even some well-established chains to drop by the wayside. In an already highly competitive, razor-thin-margin industry, Wal-Mart and company have ratcheted competition to a whole new level.

located in the ceiling near specific UPCs that belong to participating vendors.

If the customer walks down the cereal aisle, previously purchased cereal brands appear on the screen as a prompt. The screen will also display targeted coupons corresponding to the product location, and a “find” capability directs shoppers to infrequently used products. “If they want, customers can also use an interfaced scanner to scan product as they place it in the cart and

“The way to succeed today in the grocery industry is to differ from our competitors.”

—ROBERT KEANE, SPOKESMAN, STOP & SHOP

Those who remain in the grocery game are employing creative strategies and new technologies to distinguish themselves. Grocery stores are offering prepared food and tables for in-store dining, baby-sitting services, nutritional seminars, and an array of shopper-friendly and back room technologies designed to build loyalty as well as move more product.

A New Wrinkle in Targeted Marketing

Loyalty-building shopping programs and targeted coupons aren’t new, but vendors are busy refining the systems to deliver them. Cuesol’s Shopping Buddy is a touchscreen computer interfaced to a handheld scanner that a customer can attach to a cart. The customer scans a Stop & Shop card, for example, enabling computer-based access to the customer’s purchasing data. As a customer walks down store aisles, the computer tracks product locations via a series of infrared transmitters

complete self-checkout via a designated lane,” according to Mike Grimes, VP, Sales and Business Development, Cuesol. “Other security measures are in place such as EAS tags, cameras, and random audits. But overall, the self-scanning shrink is no different from checkout by cashiers.

“Once the system is up and running and shoppers become increasingly accustomed to using it, ROI is dramatic — with increased labor productivity, and the device’s added convenience attracts more shoppers who tend to buy more because of the targeted offers,” Grimes continues. “Stop & Shop has been using it now for two years.”

High-Tech Sales Circular

Massachusetts-based Stop & Shop, operating 380 stores in the Northeast, began piloting the Shopping Buddy system two years ago in its Quincy, Braintree and

Kingston, Massachusetts, stores, according to Stop & Shop spokesman Robert Keane. “The way to succeed today in the grocery industry is to differ from our competitors,” says Keane. “We consider Shopping Buddy a great competitive differentiator.

“Shopping Buddy appeals to younger shoppers as well as adults, and we’ve noticed that once a customer uses it, they go back to it,” Keane says. “The units are getting constant use. Our two-year pilot in three Massachusetts stores finished three months ago, and we’re expanding it to 20 stores. Right now we’re in the testing phase in 10 Connecticut stores. There’s a lot of interest from vendors, but it’s too early to assess the results. We see it as a more targeted iteration of the sales circular.”

Gaining a Merchandising Edge

Indiana-based WiseWay Food Centers owns seven stores, two of which are “out PayLow model, which is more warehouse-like, where you bag your own groceries,” says WiseWay IT Director Guy Toczek. The company recently licensed the StoreNext Retail Technologies Category Analyzer, a graphical tool for independent stores that tracks in-store item movement, cost and retail data, and combines it with pricing and inventory information to generate customized sales and profitability reports.

“One of the main reasons for purchasing it was to get real-time data into the hands of our merchandisers,” says Toczek. “Previously, I was generating SQL Server reports for them offline. It was very cumbersome for me, and frustrating for the merchandisers. Now they can sit at their desks and call up information in whatever format they need and assess the impact of



BRUCE ABELS,
PRESIDENT,
SADDLE CREEK

headquarters, where the system is updated automatically on a daily basis with POS data from its integrated IBM 4690 Supermarket Application system. “We also participate in Nielsen studies, transferring data automatically on the back end, which is saving us a tremendous amount of time,” adds Toczek. “We haven’t had time to quantify savings yet and are still expanding on its capabilities. We can utilize this tool on an exception basis – for example, to identify any product that exceeds a minimum gross profit threshold. But we were confident when we purchased the package that there are enough savings to substantiate it.”

“Everybody’s looking for ways to get an edge on the Wal-Mart factor,” says Tom Saari, VP, Enterprise Systems, StoreNext. “There are very few independents left in Indiana due to the large box stores. But Cat-

egory Analyzer provides an edge on merchandising. Independents have a greater degree of flexibility in their favor, and can address the threat by making quicker decisions on items by looking at costs, and the impact on gross margins, etc. Also, we offer a subscription-based model that lowers the risk for smaller retailers by eliminating up-front costs.”

Grocery Distribution

At the back end of the supply chain, grocery distribution is largely managed by distributors and 3PLs, specialists in the high-tech networks necessary for moving food quickly and safely. Saddle Creek Corp is a Florida-based third-party logistics provider for grocery, beverages, and beer and wine distribution, as well as high-volume cross-dock operations. The company operates 35 DCs —

“Everybody’s looking for ways to get an edge on the Wal-Mart factor.”

—TOM SAARI, VP, ENTERPRISE SYSTEMS, STORENEXT

sales and promotions on our bottom line. We’d saved three years of our historical data and imported it, so we’d be up and running when we went live this April.

“In the four and a half months we’ve been using Category Analyzer, we’ve been able to refine our importing skills on the front end,” Toczek says. “It forced us to clean up our act and get good data into the system. Now we’re generating advertising gross profits on the fly, where it took us a substantial amount of time before. And we’ve just scratched the surface. Basically, it empowers our employees to do their jobs better.”

WiseWay implemented Category Analyzer at its corporate

some nine million square feet, in all — across six Southeastern states, serving customers such as DelMonte, Dial, Gallo Wineries, and Sam’s Club. Value-added services include packaging, quality inspection, local and regional delivery, inbound back-haul programs, and a growing amount of rail-to-cross-dock operations, says Saddle Creek President Bruce Abels. “Increasing carrier rates have made rail a more viable means of transportation,” Abels states.

“The grocery industry is going through a change, a swing back to more regional distribution and transportation because of increased costs,” Abels says. “Florida and New England are known

as 'corner markets,' difficult to get to from Midwest hubs."

As to corporate objectives, Abels says that "Our management philosophy is 'Whatever it Takes,' borne out by our focus on customer service. What it generally takes is technology. Tech has raised the customer-service bar – what once was perceived as high-level is now ordinary."

Saddle Creek's CPG and retailer customers are using technology to track orders, and consequently on-time order requirements have become much more rigorous, according to Abels. "Our transportation fleets are short haul – no longer than 200 miles – and we never thought we needed satellite tracking before," he says. "But lately we've reconsidered that decision — paper-based systems are no longer adequate for today's more granular requirements."

Survival of the Tech-Savvy

The companies who survive are the ones who are learning from Wal-Mart, concludes Abels. "Our customers now have some grocery retailer customers issuing vendor scorecards, and that kind of pressure devolves down to us," he says. "We made a decision to move to wireless terminals in all of our trucks by the beginning of next year. We'll be able to make better use of our fleet, capture

"The grocery industry is going through a change, a swing back to more regional distribution and transportation."

delivery times, and track driver performance in real time. We're looking at cellular GPS systems where we can outfit a truck for about 80 dollars, and by saving a few hours delivery time per week, pay for the system quickly – it appears to be a no-brainer."

Mastering the Complex Food Chain

Headquartered in Illinois, DSC Logistics offers logistics services across its U.S.-based network comprising some 30 facilities in 13 states, totaling about 13 million square feet of warehouse space with both ambient and temperature-controlled environments. DSC's customers include CPG stalwarts such as Kellogg's, Kimberley-Clark, J.M. Smucker Co., and Unilever, as well as a range of food ingredient suppliers.

DSC recently began participating in a remix program for Wal-Mart vendors. The program, known as Multi-vendor Optimization Strategy (MOST), remixes and consolidates multiple vendor shipments in order to deliver full truckloads to Wal-Mart DCs and stores, eliminating LTL shipments arriving from diverse locations. The program not only boosts docking and delivery efficiencies, but pallets are often remixed according to product categories for delivery direct to the store shelf.

To support customer requirements, DSC relies heavily on cut-



ADRIAN POTGIETER,
VP OF BUSINESS DEVELOPMENT,
DSC LOGISTICS

ting-edge technologies. The company has RFID pallet-tagging in production with a supplier to Albertson's and Wal-Mart, says DSC VP of Business Development Adrian Potgieter. "On the technology front, RFID is one among a number of technologies we employ," Potgieter says. "DSC applies technology to evaluate the performance of all operations, so DSC and its customers work together to continually improve processes and solutions."

In an effort to increase logistics process efficiencies in warehouse management, DSC deploys LXE terminals on all DC forklifts. "The larger screen provides full access to inventory and order information in real time, eliminating the need to travel back to the office," says Potgieter. "We use the terminals/scanners for receiving, put-away, and picking, integrated into our own

proprietary warehouse management and enterprise system. Our system is very flexible, allowing customizing by industry and functionality."

Managing Product Moves on the Fly

DSC's process flexibility extends far beyond its software and its functionality; the entire customer-support infrastructure is predicated on an environment of unpredictability and rapid change.

—BRUCE ABELS, PRESIDENT, SADDLE CREEK

For example, when J.R. Simplot, an Idaho-based producer of billions of frozen French fries for fast food chains including McDonald's and KFC, acquired a dried-potato line from Nestle, it needed to quickly find a dry distribution network to assure continuous customer service. Simplot chose DSC Logistics because the 3PL had dry-distribution experience and an existing network.

Previously, Nestle had been distributing Simplot's dry potatoes, as well as those of Idahoan Foods, whose dry distribution business became part of the acquisition package. Consequently, Simplot didn't know much about the pick-up practices of a significant number of its new customers, and Idahoan's presence complicated the situation. Simplot and Idahoan's lot numbers had to be separated in the DSC system, yet integrated as one customer. In addition, DSC had to set up an EDI link to give Simplot visibility into product shipping from Idahoan. Nonetheless, the transfer of operations went smoothly and on time because DSC's standardized process-oriented operations and integrated IT infrastructure could handle the anomalies.

"Our biggest challenge is keeping ahead of the dynamic nature of business trends," Potgieter concludes. "Logistics providers face supply chains that are dynamic and continue to evolve rapidly." **ERI**