À LA CART

A SUPPLIER'S GUIDE
TO RETAILERS' PRIORITIES

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DAVE SHAMBROCK,
EXECUTIVE DIRECTOR, MANITOBA FOOD PROCESSORS ASSOCIATION
CHAIRMAN, CANADIAN COUNCIL OF FOOD PROCESSORS

À LA CART

A SUPPLIER'S GUIDE
TO RETAILERS' PRIORITIES

PETER CHAPMAN

à la cart
A supplier's guide to retailers' priorities

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INTRODUCTION

Our retail landscape is constantly evolving and food is a powerful traffic builder. Traditional food retailers are competing with more diverse competition every year. This book is for suppliers and other people involved in the food industry to help them understand what is important to their customers. Everyone involved in the food industry needs to understand what retailers are doing and why they are doing it.

The chapters in the book are designed to share why a priority is important to the retailers, what they are doing about it and how suppliers need to address the priority in their own business. The final page of each chapter is an opportunity for the reader to include some specifics from their own business.

During the planning process it is easy to focus on your own business and the opportunities within. Every supplier or business involved in the food industry should be aware of the retailers' priorities when they conduct their business planning. The final chapter provides a process for this to ensure there is alignment, which leads to prosperous relationships.

PREFACE

There were so many times when I was sitting across the desk from a supplier when it was apparent an item would not achieve its full potential. Two thoughts would come to my mind:

You just don't understand me as a retailer;

It's your job to get the item in the shopping cart, not mine.

I know our respective sales would have been much greater if the discussion was built on these two key points. These discussions can be more productive and there are so many opportunities for suppliers who see the retailer as a customer. Despite a common goal, relationships between retailers and suppliers can be very adversarial, an oddity that happens when each party does not understand or respect the challenges facing the other.

One of my biggest frustrations was suppliers who believed their job was to produce a product and get it listed. Retailers have thousands of items to manage and sell, so here's a clue to your success; they will only keep the ones that make it through the cash register. Suppliers have to produce products and entice the consumer to make the decision to purchase.

During my twenty years with Canada's largest food retailer the retail landscape and the sales mix changed dramatically. Suppliers need to evolve with the changes. I saw items that should have performed so much better. It really was disappointing to see items perform poorly when they had so much potential. Collectively we can have such a powerful influence over what the consumer buys. I am committed to helping suppliers understand the retailers so that they will be more successful.

The chapters in this book are designed to help suppliers and others in the food industry understand what is important to the retailers, what the retailers are doing about it and how suppliers can incorporate this in to their

own business. I will take you behind the closed doors of the retailers to offer some insight in to the most important issues and how the retailers are trying to drive traffic and sales.

Products will be successful when they are aligned with retailer's priorities and when they resonate with consumers. We all win when products get to the shelf and the consumer puts the item in the shopping cart.

Peter Chapman

CHAPTER 1

SURVIVE AND THRIVE IN THE COMPLEX FOOD INDUSTRY

WHY DO WE HAVE TO MAKE THIS SO DIFFICULT?

Selling food products should be such a simple business: you produce a product, deliver it to a store and watch the consumer put it in their shopping cart. Unfortunately, the industry has made it so much more complex. Today's food industry is a myriad of challenges, throughout the entire value chain. I will explain what the retailers are doing and why. There are suggestions for suppliers that will conclude with a recipe for success.

To be successful the supplier must satisfy two masters:

1. The customer who is the retailer;
2. The ultimate consumer.

CUSTOMERS AND CONSUMERS ARE NOT THE SAME

There is a fundamental difference that can be the determining factor between success and failure. In our system of food retail, the retailer issues the purchase order and is the customer of the supplier. The consumer rarely ever pays the producer for the product; they buy it from a retailer.

The *customer* pays a business for a good or service;

The *consumer* purchases a product for personal consumption.

I have seen many great products that do not succeed because the supplier has only focused on the consumer. It's critical to understand who your customer is and what they are focused on today and into the future.

There are great opportunities for suppliers who **commit to understanding 'the retailer is the customer.'** I believe that by understanding and anticipating the needs of retailers and consumers, suppliers can become much more valued and in demand.

PRODUCTIVE RELATIONSHIPS REQUIRE BOTH PARTIES TO UNDERSTAND AND RESPECT EACH OTHER. ENSURE YOUR ORGANIZATION UNDERSTANDS AND RESPECTS THE PRIORITIES OF THE RETAILER.

There are thousands of great food products being produced today and in development for production tomorrow. It continues to amaze me how people can introduce new items and reinvent old ones. Just when you think you've seen them all, a new item will hit the store shelves that generates a loyal following of consumers. It is vitally important to understand that retailers control the store shelf. Category managers decide if it will be available before the consumer ever has a chance to put it in their shopping cart.

A well defined customer base is very important. In food processing, there are many options for selling product. Make sure you explore all avenues to find the right fit for your business. It is important to remember that medium and large retailers are not going to change their methods of operation for suppliers — you need to understand them and design a business model that will be successful satisfying their needs.

Selling product to the retail trade can be challenging, however, there are some benefits that are often overlooked.

The challenges include:

1. Large retailers can exert influence over suppliers;
2. Selling product to large retailers can be intimidating to smaller suppliers;
3. A small number of category managers can have a significant influence over the success or failure of a producer or processor;
4. The retailer has made the investment in the store so they control what goes in;
5. Product specifications and standards are often challenging for producers and processors to meet;
6. Central distribution is difficult for some producers and processors to accept;
7. Central procurement often requires travel and developing relationships with people in different regions;
8. Retailers have their own language and they expect suppliers to understand the terms and words they use *(see page 164: The language of retailers)*.

There are also many benefits to selling product to the medium and large retailers:

1. A small number of customers allows the producer or processor to really understand the customer in detail;
2. Retailers focus on volume which can be a benefit to suppliers;
3. Improvements in the retailers' distribution systems can result in cost savings for producers and processors;
4. The focus of retailers is relatively consistent. The overall priorities are similar. They each have their own version of sales as a priority but all have sales as a top priority;
5. The expectations of retailers are well defined;
6. The resources within retailers are becoming more limited, therefore, when you provide a valuable service to them you have increased your value.

YOU HAVE TO KNOW WHAT YOUR CUSTOMER IS DOING!

If you determine retailers are the best distribution channel for your products, you must understand the priorities of your customers. These are key areas of focus for the retailers, where they are investing money and resources to be successful. The business priorities among different retailers are surprisingly, relatively consistent.

SALES

Sales are a top priority of every retailer. To be successful they have to get their products through the cash register. This is the first number they look at each week. It is critical that your products will deliver sales to the retailers every week. You should have targets for sales within your business and if possible relate them to your own metrics as well as to the retailers. For example: you might require 10,000 cases per month to get the level of efficiency required for your packaging equipment, but you should also quantify that in terms of cases per week per store. That's how your customer measures success. Look at sales within your business and through the eyes of your customer.

DIFFERENTIATION

In a crowded marketplace, **every retailer is trying to carve out its own niche.** It is critical for suppliers to treat each retailer with a unique strategy. Every retailer is trying to sell food but each has its own method of doing it. Suppliers must understand this and develop a solution that supports the point of differentiation for each retail banner.

SUPPLY CHAIN

Getting the product through the supply chain to the store is very costly and complicated. **All retailers are working to improve efficiency** and reduce the costs of the tasks involved. This is one area of the retailer's operation that is not only expensive, aside from getting product to the store, but delivers very little value to the consumer. The end users expect the product will be there for them in pristine condition, but there is no premium for getting product to the shelf in great condition. Therefore, retailers are very focused on moving products as

efficiently as possible. It is critical to the success of an item and a supplier that products flow through the entire supply chain system properly. This starts when the purchase order is issued and ends when the product gets to the store shelf.

FOOD SAFETY

The topic of f**ood safety has become a non-negotiable issue** in the supply of food to retailers in our marketplace. Retailers have their standards and expectations for food safety and it is the responsibility of suppliers to understand these and meet or exceed them. Suppliers who do not have adequate processes in place run the risk of providing unsafe food and seriously impacting the relationship with retailers.

HEALTH & WELLNESS

As consumers learn more about the impact of food to their bodies, shifts have occurred. People are looking to move back to products which are better for them. **People want to live longer and healthier.** Food producers and retailers are changing the products and stores to accommodate these changes in the marketplace.

GLOBAL FOODS

Our population is changing and consumers are becoming exposed to more and more diverse tastes and products. The growth of sales in the ethnic categories is driven by immigration and access to information. The world is a much smaller place in terms of ingredient sourcing and cooking methods. First, second and third generation Canadians are looking for many products that were never available in Canada, even 10 years ago. Food producers and retailers are responding quickly to make these items available. There are many opportunities for suppliers who are able to produce these products or bring these items into the country.

FOOD SOLUTIONS

One of the most valuable commodities to the consumer is time. **Producers and processors who are able to reduce preparation time and effort will generate sales.** The new caveat to this opportunity is that items should also

provide some health benefit. The end user is focused on reading nutrition labels and finding items that meet the need for convenience, yet are not excessive in sodium, fat or sugar.

CORPORATE SOCIAL RESPONSIBILITY

The well being of our planet is in the media regularly. Producers and retailers appreciate that their responsibility is to provide food in a manner that will preserve our valuable environment. Sourcing of items is also a focus for retailers as they strive to deliver sustainable products from around the world. **Consumers are becoming much more aware of this issue** and many are demanding more information and transparency in the methods of production and distribution. There is also an increased emphasis on the well being of employees at suppliers and within the retailing network.

PRIORITY ALIGNMENT

Every retailer has its own definition of these various priorities and some would change the level of importance of each to support their own business model. They are focused on these issues to run their business and satisfy the needs of their consumers. Suppliers must incorporate these issues into their own business model. However, the top spot in any priority list must be to increase sales. It is critical to understand where your customer is investing time and resources now and where they intend to in the future. It can take years to develop new items and change processes — that is why it is so important to understand these priorities now and into the future.

Once you have a good understanding of a retailer's priorities, it's important to assess how they relate to your own business priorities. For example: if your customer is focused on a comparable sales increase of 5%, will your item deliver this? If you're unable to deliver the sales increase, will your items be delisted in favour of another supplier who can? Your sales will be impacted either way. It's important to explore each of the priorities as they relate to your customers. They are all focused on each of these issues but they have their own unique perspectives.

In the following chapters we will discuss these priorities in detail. We will explore why they are important to retailers, what they're doing about them and what you as a supplier must do to respond within your own organization. The final chapter will provide a method for you to incorporate these priorities into your own business planning.

This should be such an easy business. The reality is that it is a complex business. Your retail customers own the store so you must understand their needs. They are focused on specific priorities to drive their businesses and bring consumers into the store. You must be aligned with these priorities to meet their needs. In the end, that's what will make your customer a satisfied customer. Satisfied customers generate positive relationships and deliver sales; which is what this is all about!

THREE KEY POINTS TO MAKE SENSE OF A COMPLEX INDUSTRY

1 To be successful, the supplier must satisfy two masters; the customer (who is the retailer) and the ultimate consumer;
The customer pays a business for a good or service;
The consumer purchases a product for personal consumption.
2 A successful relationship requires the supplier to be aware of the retailers' priorities;
3 Priorities of the supplier and the retailer must be aligned.

What are your customers' priorities?

What are your business priorities?

CHAPTER 2

SALES ARE JOB #1 FOR RETAILERS

WHY SALES ARE SO IMPORTANT

There is no doubt when you work in retail that sales are key. Every morning retail smartphones and emails are alive with daily and weekly updates. Every week there is tremendous focus on the previous week's sales. When I was in retail we would review our performance relative to the same week last year, the budget and the plan. As a supplier you need to respect the retailer's emphasis on sales. You also need to understand how that obsession can have an impact on decision-making in the business. A bad week in sales can lead to immediate changes in advertising retails or item selection.

Sales momentum is critical in retail. If employees working at a retailer are engaged, their mood will change with sales results. Great sales results that deliver numbers above expectations really energize employees. One great aspect of the retail food industry is that you can determine the effectiveness of your plan and your execution very quickly: the cash register will tell you. That's where the shopper votes.

The top line (sales) drives results. In retail, we used to say "volume hides a lot of sins." Each retailer has its own way of describing that, you have to understand that sales are the top priority for your retail customers.

In retail, there are many different metrics to use for analyzing sales results. Retailers review:

Total sales;
Department sales;
Sales per square foot;
Sales per customer;
Sales per labour hour.

These numbers are reviewed for each department and each store. They get scrutinized every week, every month or period and every year. Yes, there is an obsession about sales within retailers.

FIXED COSTS MAKE OR BREAK PROFIT

Many expenses in retail are fixed but if you can achieve volume, these expenses decrease rapidly as a percentage of sales. The store lights are on and people are working no matter whether they do $350,000 or $550,000 per week in a location.

There are, however, many controllable expenses in stores. Labour is the largest controllable expense that retailers have. There are a minimum number of hours required to run a store. When sales start to grow, there are many opportunities to leverage labour and other expenses. Retailers invest considerable resources in finding opportunities to improve their numbers.

When there are more and more opportunities to buy food, food retailers have to be more focused than ever on maintaining and growing sales.

THE RETAIL LANDSCAPE HAS TURNED UPSIDE DOWN

One major challenge facing traditional food retailers is that there are many more, and different, retailers trying to sell food. We once had well defined

channels for distribution where grocery stores sold food, pharmacies prescribed medication and sold health care products and department stores sold clothes and household goods. Now they're all trying to be all things to all people. Food stores have pharmacies and clothes, drug stores have sizable percentages of floor space dedicated to food and some mass merchants have more linear feet of food than do some food stores.

Food is a necessary and popular item and it does drive traffic. Traditional food retailers are trying to prevent losing volume to many different stores. The food stores are not innocent in this blurring of channels — they were eager to dive into discounted prescriptions and some even devote considerable space to clothing. No doubt this offers the consumer many one stop shopping options, but it also creates a much more diverse marketplace where the battle to deliver a weekly sales number is more challenging than ever.

The overall retail landscape has evolved and segments within food retailing have gone through significant change as well. The traditional supermarket has evolved into three segments:

Discount food stores;
Conventional (or traditional) food stores;
Large format (or super stores).

The three segments each have a defined target market, however, there's considerable cross shopping. Retailers work diligently every week to put together a program that will entice the consumers to spend their food dollars in their stores.

DISCOUNT FOOD STORES

Discount stores occupy the smallest physical space of the three segments and they rely on high volume and low cost to deliver a bottom line. These stores must be priced competitively and most follow an every day low price program. They price check the competition aggressively and have deeply discounted ads on a select number of items. The discount segment has

experienced considerable growth in recent years with the impact of the recession and the changing consumer, driving shoppers into these stores.

CONVENTIONAL (OR TRADITIONAL) FOOD STORES

The physical size of traditional stores is usually between 30,000 sq. ft. and 80,000 sq. ft. and they offer a full array of departments and more service than the other two segments. Pricing is higher with a weekly ad to create excitement, drive traffic and provide a template to support themes and events. Traditional stores have been under more pressure for sales as consumers have shifted away to discount stores to save money. Consumers have also responded to the aggressive real estate expansion program executed by the large stores so the traditional store is caught in the middle, losing to the other formats.

LARGE FORMAT (OR SUPER STORES)

Large stores, which are more than 80,000 sq. ft. have been growing with competitive pricing, one stop shopping and a significant growth in square footage. Walmart, Costco, Real Canadian Superstore, Save On Foods and now Target occupy the large format space. These stores started to open in Canada in the 1980s. They were built as destination stores with the philosophy that consumers would travel up to an hour to shop. This has now changed and you will find them in smaller markets and across the street from each other. They drive considerable traffic and the key for these stores to be successful is delivering value to the customer.

RETAILER'S OBSESSION WITH SALES

Your retail customers work very hard to develop a sales culture. This is done for a number of reasons, which are both internal and external. Internally, employees must be making decisions that will result in consumers making purchases, while externally there is considerable pressure to deliver positive results for shareholders.

The majority of large retailers are publicly traded companies. Sales information is available each quarter and analysts working with the financial

institutions put a significant emphasis on the sales numbers reported. Almost everything done by the retailers is determined by sales. This is the first number budgeted and all others are defined as a percentage of sales.

When you see a retailer report financial results, sales are always one of the first metrics to be listed. If sales are not first, they are probably not very encouraging. Retailers report two numbers; absolute and same store (or comparable) sales. Both numbers are important, however, the analysts who assess performance of retailers put a lot of focus on same store sales numbers. The reason that same store sales are so important is that they measure performance in stores that have been open for more than a year. These are the core sales and there is less influence from new retail space through real estate programs or from renovations. Absolute sales are the total sales number for the business.

You should be aware of sales results for your retail customers. These are available in quarterly updates they release which are posted on their websites. Recent results for the major retailers are listed below.

	Absolute sales	Absolute % change	Same store % change
Sobeys Q2 ended November 2, 2013	$4,416,800,000	+2.0%	+0.2%
Metro Q1 ended December 21, 2013	$2,701,300,000	+0.0%	(0.5%)
Loblaw Q3 ended October 5, 2013	$9,772,000,000	+1.5%	+ .4%
Walmart			
U.S.A.	$67,692,000,000	+2.4%	-0.3%
International	$33,109,000,000	+0.2%	n/a
Sam's Club Q3 ended October 31, 2013	$14,075,000,000	+1.1%	n/a
Target Q3 ended November 2, 2013	$17,258,000,000	+4.0%	+0.9%

All sales numbers were taken from results posted on the respective retailer's website.

There are many considerations when comparing sales results. They are not 100% comparable because retailers have different reporting periods. The product mix for each retailer is also different. The Walmart website reports sales with and without gasoline sales due to the fluctuations in pricing. Retailers operating in the United Sates and some Canadian provinces are able to sell alcohol, which is not always part of the product mix. Currency fluctuations also impact sales when they are converted to U.S. dollars for Walmart. Walmart reports sales for the U.S. division, the international division (where Canadian sales are) and the Sam's Club division.

It is always interesting to note the magnitude of sales. Now that Canadian retailers compete directly with Walmart, Target and Costco, you can see the massive sales they compete against. The annual sales of Walmart at $469 billion are daunting. To comprehend the magnitude of these sales, consider them in relation to the economy of entire nations. Using the International Monetary Fund's list of 2012 national gross domestic products, Walmart's 2012 sales would rank #28. Their annual sales are larger than the entire economy of countries such as South Africa, Venezuela and Denmark. It is also interesting to express Walmart sales in relation to the sales of the Canadian retailers:

Walmart has 16x the annual sales of Loblaw Companies;
Walmart has 27x the annual sales of Sobeys;
Walmart has 34x the annual sales of Metro.

If you envision the retailers sitting in a sandbox, which is the Canadian market, Walmart has the magnitude to push the others around.

There are a number of ways retailers generate sales. The most important is location of products on the shelf in the store. Approximately 80% of

products are purchased off the regular shelf. With two things necessary for good sales from the shelf; in-stock position and pricing.

Retailers will follow either an every day low pricing philosophy or a high-low strategy.

PRICE CHECKING KEEPS RETAILERS IN THE GAME

Every day low pricing (EDLP) requires a long-term commitment to communicate value. Every day low prices are more consistent and deliver a lower total shopping bill on an average basket of goods. Retailers who subscribe to this do not invest as much in the weekly ad and if possible they would prefer to have no ad at all. Walmart is the best example of an EDLP retailer. It is interesting to note that when the company came to Canada, it had to reduce its dependence on EDLP and invest more in ads to drive traffic. EDLP retailers believe they will get more of the total weekly shop from their loyal shoppers. These consumers need to be convinced they will get the best overall prices. Discount stores also subscribe to this strategy although they do have ads with limited numbers of items at deep discounts.

High-low includes higher shelf prices and deeper discounts in the ads. Conventional food stores usually subscribe to the high-low strategy. Margins are higher on their shelf prices and they offer a wider selection. Ads are designed to drive traffic on impressionable items and often undercut the every day low prices across the street.

Your retail customers put a significant amount of resources into understanding pricing in the market. Retail price checks are done weekly on impressionable items and then a larger list is completed over several weeks. Employees within the merchandising group devote hours to reviewing the price checks and working to ensure they are priced properly within the market. It is very important you understand the price of your items at the various retailers. If you're in a highly price sensitive category and one retailer makes a change, you need to understand the impact on the rest of your retail customers. They will notice it!

PRICE CHECKING ESPIONAGE

The entrance of Price Club (subsequently converted to Costco in Canada) was a challenge for traditional retailers for many reasons. We were faced with a competitor that charged consumers a membership fee, operated on lower margins and had unique sizes and products. They would not let the other retailers in to price check the stores. We had no way to get reliable information about pricing to ensure we were competitive.

We had to resort to some price checking espionage to get the information we needed. Our merchandising employees were dispatched to stores with a mini tape recorder and strict instructions to destroy the tape if accosted by an employee. We would walk the aisles and recite item and price into our sleeves, which contained the cleverly hidden mini recorders. Only a small number of our employees were asked to leave, but we got the information we needed to keep our stores competitive.

RETAILERS ARE ADDICTED TO ADS

Ads are another vehicle used by retailers to generate traffic and drive sales. Millions are invested each week to produce ads, not to mention the investment in gross profit through reduced prices. Since the recession, we have seen consumers put even more emphasis on the items in the flyers when doing their weekly shopping. In A.C. Nielsen's "State of the Industry" they report that 36% of sales and 48% of tonnage are items with temporary price reductions. Ads will drive incremental volume. Retailers will create a grid of items months in advance and specific item selection will happen six to eight weeks in advance of the flyer being in effect.

Retailers will react to the current market place swiftly. If sales are disappointing, consumers can be attracted the very next day with strong item and price ads. Often we were called upon to drop what we were doing and react to a newspaper ad for the very next day.

SOFT D_INKS

Christmas is a critical time for food retailers. Consumers are in the mood to spend and they are willing to buy many items that do not sell the rest of the year. It is critical to generate traffic during week 51, the week prior to Christmas. In the 90's we would run full-page newspaper ads to generate traffic during these key weeks. Today, digital files are transmitted over the Internet, but we would send physical artwork to the newspapers to create plates and print ads.

I was responsible for marketing and advertising across Atlantic Canada at the time. The merchandising department confirmed they would invest thousands of dollars to advertise 2L pop at .99 per bottle. This was a significant investment, one that was sure to drive customers in to our stores like bees to honey. A critical ad during the important holiday season in the competition to bring in consumers. You can imagine my horror when the ads ran in every market with the missing "r" from the word "drinks." It was a memorable ad for a lot more than a great price on pop.

SERVICE LEVEL IS MORE THAN A NUMBER

Execution throughout the retailer's business is a key to driving sales. Products must flow through the supply chain and get to the shelf at the right price. Themes and ads must be effectively merchandised. There are many factors related to execution that will deliver sales. Retailers have operations supervisors who are tasked with making sure execution is as good as it should be.

Service level is a measurement that's reviewed daily as it has a direct effect on sales. If product is not getting to the warehouse, through the warehouse, or to the store, sales will suffer. Store level ordering will also impact service level. A 5% drop in service level can result in a sales decline of 1%.

Retailers rely on themes, holidays and events to drive sales. These opportunities can be key in delivering incremental sales growth. A significant amount of resources are devoted to getting the ads right on key weeks and helping stores order items they only see once per year (such as fruitcake or mini Easter eggs).

There are many different drivers of sales. Each retailer has its own philosophy of which is most effective and why. Suppliers must understand where each retailer is putting the focus and how they can contribute.

SUPPLIERS NEED TO BE OBSESSED WITH SALES

To ensure your business is aligned with your customer's priorities, you need to get focused on sales and sell-through at retail. Foster a culture of sales reporting and challenge employees to know their sales numbers, keep them front and centre.

Sales success at retail is like climbing a mountain. The first step, the listing, is only base camp, the warehouse is level one, and the rest of the climb to the summit of driving sales is dependent on great planning and execution.

The retailers define sales as items going through the cash register. Do your sales people know what the sell-through of your product should be and what it actually is? Focus on sales as products get into the shopping cart, not when they go in the warehouse.

SUBSCRIBE TO THE PHILOSOPHY THAT PRODUCTS ARE SOLD WHEN THEY GO IN THE SHOPPING CART AND THROUGH THE CASH REGISTER AT THE STORE.

Your business and your retail customers should have the same definition of the sales plan. I have worked with many suppliers who were intimidated to talk about sales. This is one of the most important topics for you to discuss with the retailer. Every year you should both agree on what the potential volume is and how you will achieve these results. Your success will be defined in large part by the program you implement and the sales your item achieves. You must have the same expectations as the retailer.

DO YOU HAVE A PLAN?

Define your sales in terms of your customers. Overall, sales by customer is vital. Which items are growing with each of your retailers will tell you a lot about where the focus needs to be and also which programs are successful. One other measure of sales worth exploring is sales per store. If you sell 5,000 cases per year and the retailer has 135 stores then you are doing less than one case per week per store. Every department and every category has different sales expectations, however, less than one case per week per store could be a problem.

Understand your sales performance relative to your retail customer's performance. The numbers reported are only for the total business. You will need to do some research to understand your department or your category. Retailers are very secretive about sales details. In your meetings with category managers you need to ask questions about sales. They will be reluctant to give you actual sales numbers other than those publicly reported, but you should ask if your item(s) are performing at the category growth or above/below. It is important you know these facts; it should help you build your programs with the retailers.

Year over year sales growth is critical. You need to know when ads were run in the previous year and how it affected volume. Retailers will be looking to meet or exceed those numbers so you must be prepared and be proactive if possible. Remind them of the programs that delivered sales and figure out a mutually beneficial program to repeat successes. They have many items, categories and regions to manage, do not ever assume they will remember everything that worked.

WHEN YOU HAVE A PLAN, TALK ABOUT IT

The biggest win for your business is to bring sales opportunities to the retailers. You should always include these in your meetings with category managers. What do you have that could help them meet or exceed their sales numbers? Every time you meet with the category manager you should

include sales as a topic and bring ideas forward. Your ideas might not always get accepted, but at least the retailer will know you are focused on sales.

Every item needs a sales plan and it's effective to share components of the plan with your retail customers. They will have much more faith in your abilities when you outline your plans for the item. Always remember that it is your job to sell the items, not the retailer's. Retailers provide a store and a shopping cart for the consumer, you need to provide the incentive for the shopper in the store to pick up the item and make the decision to buy. Your sales plan should be an annual plan that addresses all of the opportunities to get your item into the shopping cart of the consumer. Too many suppliers see success as getting an item listed or delivered to the warehouse. This is only part of the process. Sales through the cash register need to be generated every week, every year.

There are many tactics available to achieve sales success. Determine which are the most effective tactics for your particular item and in your category. You must select the options that are effective and affordable within your business plan.

DO YOU KNOW WHAT YOUR IN-STOCK POSITION IS?

The most important component of the sales plan is how you will sell the items off the regular shelf. Approximately 80% of product sales occur off the regular shelf, that is where the item is every day, every week. Your item must be in stock and whenever possible have a sign, signs sell! You must invest some resources to ensure your shelf presence is as good as it can be. Most retailers implement plan-o-grams that determine the shelf placement for every item. The purpose of plan-o-grams is to provide the store employees with the correct alignment of items to drive sales and deliver profit. Plan-o-grams are usually created in the merchandising group using information from suppliers. All items within the category are considered and placement is based on a number of factors; including sales, profit, size, private label stock keeping units (SKUs) in the category, listing fees and complimentary items.

When your item is listed it will be inserted in the plan-o-gram and that's the signal for the store to reline the shelf with new items. Suppliers should always know where the item is in the plan-o-gram and follow up at the store level to ensure execution. A new item with great potential will never sell if it's not put in the correct place on the shelf.

Retailers use this process to ensure consistency and allow them to analyze results. It is critical for suppliers to check to see items are on the shelf and communicate back to the merchandisers with the positive or negative results. Stores have hundreds of four-foot sections to manage and you will probably have to talk to people at the store level and perhaps the merchandising department to get execution across all stores. It is not possible to visit all stores so you might have to enlist the services of a retail broker or merchandiser. If the plan-o-gram does not get changed your item may not get ordered and sales will fall short of expectations.

ANY CHANCE TO GET A SIGN? THEY SELL.

The priority in selling off the shelf is to have the item available for sale. The second priority is to determine if there are any in-store pricing programs or signage opportunities that will prompt the sales of your item. Most retailers employ these tools to drive some incremental sales. Visit the stores and determine which tools would be effective for your products and in your categories. Often retailers with preferred customer programs offer incremental signage for participating products. Signage sells products, therefore, a slight retail price reduction with a sign can drive some strong sales.

A very powerful in-store option for driving sales is the product demonstration or demo. This is an opportunity for the consumer to try to the product right at the point of purchase. This is probably the most effective tactic to sell product; it's also one of the most expensive options. Many retailers have their own demo programs they manage and coordinate, while others will allow you to do your own demos. Explore the options and make sure the timing is right. If your item is a great BBQ product, a Friday afternoon

in the heat of the summer would be perfect. Even better if you've managed to arrange it for a sunny day!

The weekly flyer is an integral part of the retailer's promotion strategy. You will need to propose ad opportunities several months ahead to ensure your items are considered. There is always a lot of emphasis on the front page items, but do not lose sight of the opportunities an inside item can have. Watch the ads every week and look for themes where you could participate. Often, lower selling items will be grouped together to provide the retailer with the sales levels required to warrant the space in the ad. Obviously it's the retailer's decision as to what goes in the ad but you should have a plan for how many ads will benefit your item and work to achieve those ad positions.

COUPONS – THEY'RE BACK!

Coupons have been a promotion tool for a long time to provide incentive for trial or purchase. Their popularity seems to ebb and flow, however, they remain popular, especially when a consumer's discretionary income is tight. Most retailers have specific regulations about the coupons they can redeem, so make sure you understand the program. You cannot just put coupons on your website and expect the retailers to honour them, even if you are prepared to pay for the redemption. Follow the correct process and the retailer will appreciate the investment you are making in your product.

There are a number of options available outside the store that will drive sales as well. Traditional mass media advertising can create demand for your item and awareness for your brand. There are many new social media platforms to choose from as well. No matter what you choose, communicate it to your retail customers. They need to see you are making an investment in your items. Since there could be implications for sales, they might want to adjust inventory levels to accommodate increases.

When you create your sales plan you should anticipate the seasonality of the item. There are few if any items that sell the same every week. Your sales plan should reflect the changes in volume and, if possible, implement some tactics to deliver sales in non-traditional times. An example of this is when the dairies bring eggnog out for a limited four week program in the summer. An item that is usually only available at Christmas can generate some incremental volume in the summer.

There are many different methods of driving sales and you must find the best results and the most cost effective ideas for your items. You must have a plan to sell your item; the retailer will not do this for you. Sales are their #1 priority and they will achieve their goals with the items that deliver the desired results in their stores.

RESPECT THE SYSTEMS AND PROCESSES THAT ALLOW THE RETAILERS TO OPERATE BUT NEVER LOSE SIGHT OF HOW IMPORTANT RELATIONSHIPS ARE TO YOUR BUSINESS.

It is important to share components of your strategy to drive sales with your customers. You need to have a shared opinion of what the potential sales are for different items. This is critical as you assess performance and determine options for the future.

THREE KEY POINTS TO DRIVE SALES

1. Develop a sales culture within your business;
2. Every item needs a sales plan — the retailer will not do this for you;
3. Discuss sales numbers with retailers to ensure you both have a similar expectation for results. This should be done at least three times per year.

How can you drive sales?

CHAPTER 3

DIFFERENTIATE TO SURVIVE

THE DOG EAT DOG WORLD OF FOOD RETAILING

The retail landscape is getting more cluttered all the time. Everyone wants to sell food and it is tougher than ever to stand out from the crowd. It's a challenge to find meaningful differences from one store to another. Our market is so competitive that a unique point of differentiation does not last for long. To understand where we are it is interesting to explore the journey we have been on.

In the '80's, we were listening to disco and watching E.T. Our Canadian food landscape was dominated by traditional food stores. Approximately 70% of the food market in Canada was conducted in conventional food stores. There were a few super centres in the market operated by Loblaw and discount chains that were getting more attention. Discount stores started as low cost alternatives in locations where conventional food stores did not perform well. The idea was to strip out costs and reduce losses or turn it in to a modest profit. Consumers embraced the idea and sales blossomed.

THE RETAIL LANDSCAPE IN THE 1980'S

LARGE STORE	TRADITIONAL STORE	DISCOUNT
Real Canadian Superstore	Safeway Sobeys	Price Chopper
Costco	Metro IGA Steinberg's	No Frills
Save On Foods	Co-op Dominion	Food Basics
	Loblaws Zehrs	Extra Foods
	Fortinos Provigo	
	Atlantic Superstore	
	Save Easy Overwaitea	
10% of total market	**70% of total market**	**20% of total market**

> *I will always remember the day in January 1994, when we were called into the boardroom at our Loblaw office to hear the news that Walmart was coming to Canada. The dark cloudy day and weather outside reflected the mood inside. We all knew it was eventually going to happen but reality is different. Nobody would ever admit it, but we felt like we were the people living in a country where war had just been declared. The result is inevitable but no one has the courage to say what challenges lay ahead. We would put on a brave face and say 'competition is good for everyone' but we knew our working life would never be the same. At Loblaws we would not be the biggest kid in the sand box for long.*

Walmart's acquisition of Woolco in 1994 still has an impact on our Canadian retail landscape.

The food industry was familiar with Walmart's march across the U.S. from region to region; taking food business from all of the traditional retail giants such as Kroger and Safeway. The Canadian stores opened with very little food but we always knew it was in the plan. Walmart's first pantry stores opened with as much linear footage of grocery, dairy and frozen as a traditional food store. The battle for the consumer's food dollar suddenly became more intense than ever in markets where Walmart was competing.

Aside from Walmart there were other changes that occurred in the '90's. Steinberg's stores were dismantled in Quebec and Dominion stores in Ontario struggled under the ownership of A&P. Loblaw was expanding and became a national retailer with the acquisition of Provigo in 1998. Sobeys was also expanding outside its traditional Atlantic Canadian roots with the bold acquisition of the Oshawa Group (IGA & Foodland in Ontario and Western Canada) in 1998.

THE RETAIL LANDSCAPE IN THE 1990'S

LARGE STORE	TRADITIONAL STORE	DISCOUNT
Real Canadian Superstore	Safeway Sobeys	Price Chopper
Costco	Metro IGA	No Frills Maxi & Co.
Save On Foods	Co op Dominion	Food Basics
Walmart	Loblaws Zehrs	Extra Foods
	Fortinos Provigo	Super C (Metro)
	Your Independent Grocer	
	Atlantic Superstore	PriceSmart Foods
	Save Easy Overwaitea	
15% of total market	**60% of total market**	**25% of total market**

The following decade experienced less consolidation, however, the shift from traditional food stores to large stores and discount continued. Costco continued to expand and Walmart was opening super centers in Ontario and Western Canada. Large cavernous stores were beginning to draw shoppers from smaller more intimate food stores. The dollars transacted in large stores and discount segments became very close to the traditional food stores.

We also saw the entry of some specialty stores in response to a changing consumer. The T&T chain opened in Western Canada, and was subsequently purchased by Loblaw Companies and Whole Foods entered the Ontario market. Giant Tiger started to become a player in the food market with a limited offering and low prices.

THE RETAIL LANDSCAPE IN THE 2000'S

LARGE STORE	TRADITIONAL STORE	DISCOUNT
Real Canadian Superstore	Safeway Sobeys	Price Chopper FreshCo
Costco	Metro IGA	No Frills Maxi & Co.
Save On Foods	Co op Whole Foods	Food Basics
Walmart	Loblaws Zehrs	Extra Foods
	Fortinos Provigo	Super C (Metro)
	Your Independent Grocer	Giant Tiger
	Atlantic Superstore T&T	PriceSmart Foods
	Save Easy Overwaitea	
20% of total market	**50% of total market**	**30% of total market**

Our Canadian landscape today continues to evolve. Sobeys' acquisition of Safeway and Loblaw's acquisition of Shoppers Drug Mart in 2013 brought consolidation back to the forefront. Consumers continue to have more large stores to choose from with Target opening 125 stores across Canada and with Walmart super centers now open in every region. Costco is moving into smaller markets and Loblaw has No Frills stores in every region.

THE LANDSCAPE IS CHANGING

Recently I was shopping with my daughters. We were looking for some snacks to include in their lunch for summer camp. Shopping with two girls under eight years old can be a challenge, especially in the snack aisle when they are hungry. It is amazing how many items you can reach even when you are in the shopping cart. A woman noticed us looking for fruit cups – which were out of stock – and pulled me aside. In a hushed voice she told me "they are much cheaper at Giant Tiger and they have plenty."

The most valuable advertising is word of mouth and the discount chain was getting it from this shopper. She was pretty much telling me to load the kids in the car and get over to Giant Tiger. Shopping for food is not the same for consumers or retailers as it was 15 years ago.The shopper continues to embrace the value offered in large stores and low prices of discount banners. Traditional food stores have higher costs and lower volume; a dilemma for these stores. Square footage is growing in the large stores and also in discount segments, making it even more convenient than ever for consumers to leave conventional stores.

THE RETAIL LANDSCAPE IN 2014

LARGE STORE	TRADITIONAL STORE	DISCOUNT
Real Canadian Superstore	IGA Sobeys	Price Chopper FreshCo
Costco	Metro	No Frills Maxi & Co.
Save On Foods	Co op Whole Foods	Food Basics
Walmart	Loblaws Zehrs	Extra Foods
Target	Fortinos Provigo	Super C (Metro)
	Your Independent Grocer	Giant Tiger
	Atlantic Superstore T&T	PriceSmart Foods
	Save Easy Overwaitea	
25% of total market	**40% of total market**	**35% of total market**

We also have other retail channels selling food. Drug stores are full of food and even Canadian Tire has some food available. Despite food being in many stores, consumers still have to visit one of the large stores, traditional food stores or discount food stores to complete a full shop. It is important to remember any dollar that is lost to a

store such as Canadian Tire puts more strain on food retailers. Their costs remain the same and if volume declines, working for a food retailer or being a supplier becomes as much fun as a spoon full of spicy sauce on ice cream.

A retailer's strategy to differentiate is developed with a number of components. Store formats, control label, selection, execution and labour all have an impact on differentiation. The right mix, well executed can be the difference between success and failure.

UNDERSTAND THE COMPETITIVE ENVIRONMENT IN WHICH THEY OPERATE. LET THEM DO THEIR JOB AND REMEMBER YOU ARE ONE OF MANY.

THE FORMAT IS THE BRAND

Store formats are essentially the brand for retailers. Consumers have a perception of what the format or brand will deliver and that is a key factor in their decision as to where they shop. Retailers invest significant money and resources into creating and operating their formats. Shopping experience, pricing, ads, product mix and execution all determine positioning and perception of the format.

Suppliers must understand the offering in each format and develop opportunities to satisfy these expectations.

Store formats may all be selling food but they are each unique. This is similar to my three children, all growing up in the same community and the same school, yet each has a unique personality. Each child has a different focus and a set of currencies that are important to them. My son loves sports and is very passionate about competing and participating. My eldest daughter is our princess. She is happiest doing crafts and playing with her stuffed animals. The youngest is full of personality with a zest for life. All fantastic children, but each unique. As they get older they will change over the years. It is important to think of your retail customers in the same light. They may all sell food but each has its own unique strategy to accomplish this.

DEVELOP A UNIQUE STRATEGY FOR EACH RETAILER.

Retailers compete with their formats and their own strategy. Some retailers operate a multi banner strategy such as Loblaw, which competes in every segment. Other retailers such as Costco have one format they put in every market. The product mix might be slightly different but overall they are very similar. The following table illustrates how larger retailers in Canada are entrenched in the market:

	LARGE STORE	TRADITIONAL FOOD STORE	DISCOUNT	SPECIALTY STORE	DRUG
Loblaw	Real Canadian Superstore	Loblaws Zehrs Fortinos Your Independent Grocer Atlantic Superstore Save Easy Provigo	No Frills Maxi & Co. Extra Foods	T&T	Shoppers Drug Mart In-store pharmacy
Sobeys		Sobeys Safeway Foodland IGA	FreshCo Price Chopper		Lawtons In-store pharmacy
Metro	Super C	Metro	Food Basics	Adonis	In-store pharmacy
Pattison Group	Save On Foods	Overwaitea	PriceSmart Foods		In-store pharmacy
Target	Target				In-store pharmacy
Walmart	Walmart Super Centre		Walmart pantry		In-store pharmacy
Costco	Costco				In-store pharmacy

PRICING IS KING

The simplest way for retailers to differentiate banners or formats is through pricing. This can be quantified and we have done a great job training the consumer to watch for lower prices.

Discount banners have the lowest prices, then large stores, with the highest prices in traditional food stores. There is a direct correlation between the level of pricing and tangible expenses such as labour, store fixtures and shrink. The higher the gross profit, these become more affordable. The real winners are stores that deliver a great shopping experience (as defined by their customer) and value.

The most important factor in the success of Loblaw's No Frills banner was the quality of the perishables. They once had the best prices but had been synonymous with poor quality fresh items. When they did a superior job of execution, consumers rewarded them at the cash register. Consumers were not willing to pay lower prices for rotting vegetables, however, they would fill their cart with quality smaller apples at a lower price.

Retailers use a weighted average to compare prices from one banner to another. They know their own product mix and use price checks done at all stores to create a shopping basket. Consumers will not notice a difference of less than 5% but when the gap starts to widen, sales will either grow or decline.

Retailers invest significant resources to keep pricing in line with the market. They appreciate suppliers who understand their pricing platforms and those who deliver opportunities to support the positioning of their banner(s).

LISTING BASE IS THE PERSONALITY OF THE STORE

There are many ways to sell the same item in a food store. I recall counting pizza in one location and we had more than 50 SKUs in five different departments. That's a lot of pizza! Needless to say, we had the pizza customer covered. The offering for consumers should support the positioning of the format. We investigated the offerings and we found several SKUs really did not support the positioning of the format and did not differentiate our offering.

Shelf space, and more importantly refrigerated and frozen shelf space, is at a premium. Category managers must manage their listing base to maxi-

mize sales and gross profit while supporting the positioning of the banner or format. There are many different ways to sell the same item. The challenge for the merchandisers is to find offerings that will deliver results and differentiate the banner. Suppliers who bring products forward that deliver this are worth a lot more than those who bring the same product to every retailer and every banner. Changes as subtle as pack size or the store labour required can make the difference.

Different departments have different opportunities to differentiate. Fresh departments or perishable departments have the greatest opportunities. There are different ways to sell ketchup but at the end of the day it is still ketchup. In the grocery department there are different sizes or formats (such as squeezable bottles) but they are limited. Fresh departments can be as diverse as full service deli items and prepackaged ready to serve deli items.

Exponential growth of prepared foods offerings has brought significant opportunities for retailers to differentiate in these departments. Full meal offerings at a traditional retailer such as Sobeys or Loblaw are very different than the pre-cooked BBQ chicken and prepared salads at a discount store. Costco has carved out a unique offering in prepared foods with a limited menu that delivers great value. I can recall certain Loblaw employees who found it hard to do a store visit to Costco without stopping for a $1 hot dog or soft serve ice cream. These items really reinforce Costco's positioning in the market. Value for lunch keeps the shoppers in the stores.

The produce department is where there are many opportunities to differentiate. One of the biggest is size. Not all apples grow to an 88 size. Discount retailers will sell the smaller produce and traditional food stores will sell larger apples. Larger, more mature fruit should have a better natural sugar content and more flavour. Large super stores will sell more packaged produce to convey value.

Selection available in the perishable departments is another form of differentiation. In a full service produce department there can be more than 500 SKUs

where as a discount store might only have 250 SKUs. The business model is that more items bring more customers. However, prices need to be higher to support the shrink that will occur with greater selection. Sales in a department such as produce drop off very rapidly after you get through the top 25 items. In a full service produce department, bananas account for approximately 10% of the entire department's weekly sales, which means they are close to 1% of store sales. Bananas are the largest single selling SKU in the store.

THERE IS NOTHING PRIVATE ABOUT PRIVATE LABEL

Every major retailer operating in Canada has a control label or private label program. The words control label and private label are synonymous to retailers. There are a number of reasons they operate control label programs:

1 Margins are higher on these items;
2 These products are loyalty programs. If a consumer prefers a President's Choice product from Loblaw they have to go back to Loblaw to get it;
3 Control label is one of the few unique aspects of the shopping experience. A delicious chocolate dessert or a unique Asian cooking sauce with an authentic kick can entice people to the store. Once retailers get them in the door, it is much easier to fill the shopping cart.

Most retailers operate different levels of control label programs. One might be designed to offer value relative to the national brands while one is designed to be unique and support traditional food store positioning.

Every retailer has their own philosophy about control label products. Some view them as an integral part of the offering. Others view them as an opportunity for some extra margin or because it is a perceived gap if they do not have it. It is necessary to understand and respect the control label programs. Retailers can perceive a product that competes with one of theirs as a threat. Some of the best insights into control label philosophy are at the store. Retailers can say they are dedicated to it but where is it merchandised at the store? If the products are on the bottom shelf and collecting dust they are not dedicated. It is also interesting to ask store em-

ployees about control label products. If there is true commitment they will understand the items and be excited about them.

This table illustrates the control label food products sold in each Canadian retailer.

	FOODIE ITEMS	UNIQUE	VALUE	HEALTH & WELLNESS	GLOBAL FOODS	ORGANIC	SUSTAINABILITY
Loblaw	PC Black	President's Choice	No Name	PC Blue Menu	T&T	PC Organic	PC Green
Sobeys	Sensations	Compliments	Signal	Compliments Balance		Compliments Organics	Compliments Greencare
Metro		Irresistibles	Selection				
Walmart		Our Finest	Great Value				
Costco			Kirkland				
Target		Archer Farms	Market Pantry				
Whole Foods		365					
Overwaitea		Western Family				Western Family Organics	

Loblaw has one of the strongest, if not the strongest control label program in Canada. One of the best parts of my job at Loblaw was when we had the opportunity to participate in President's Choice product development. The merchandisers from the different regions would come together to meet at the PC test kitchen in Brampton. This is a phenomenal facility full of every ingredient and every kitchen appliance you can imagine. Bakery was my favourite. I was fortunate to participate in the development of several tasty PC dessert items. Can you imagine walking in to a room with eight versions of hot, gooey PC chocolate molten lava cakes? We would have to try several of these items and rate them on different product attributes. (It's a tough job but someone has to do it.)

The President's Choice program was implemented by one of the most influential people in Canadian food retailing; Dave Nichol. He was passionate about President's Choice and his expectation was that everyone around him would have the same passion. His tirades were famous within

Loblaw. He would select certain items, such as PC Memories of Szechuan peanut sauce, that he perceived to be great opportunities for sales and differentiation. His dedication and persistence would force execution, which resulted in items with no sales moving to the top of the category. Each one designed to reinforce a point of differentiation only available at Loblaw stores. He left the company in the mid 90's to pursue other interests. He was never as successful after leaving Loblaw and he passed away in 2013. A great lesson in retailing, the power is not as much the individual but the position of controlling the shelf space.

DEMOS WITH DAVE NICHOL

Dave Nichol was well known for his passion for President's Choice. In Atlantic Canada we did not get a lot of exposure to him in our market. His work was in Toronto but on one occasion we learned he was coming down to speak at the University of Prince Edward Island. A few of us were dispatched to get the local store looking good and add a little extra PC signage in anticipation of his visit. We also secured some people to do demos of PC products in the store.

During his tour of the store he stopped at one of the demos and asked the man serving the PC lasagna, "what do you think of the product?" The person doing the demo replied, "I haven't tried it, usually I sample for Kraft." We braced ourselves for a verbal assault but he just looked at us and smiled. He knew we had more to learn.

It is becoming more popular to conduct events to support or emphasize control label products. Loblaw has its Insider's Report that is distributed quarterly and Sobeys has the Inspired program. These are significant initiatives to drive differentiation. It is expensive to develop items, produce point of sale signage, print booklets and re-merchandise stores. These events command a lot of resources and they are very high profile within the retailers.

When I was at Loblaw we used to talk about control label in terms of "getting religion" which is another way to say "you have to buy in." Sometimes it is easier to take money from a national brand for prime shelf space. If you have true commitment to control label you leave money on the table and put your own product in the best spot. Long term, differentiation is more important than the short-term infusion of money.

ENTERTAIN CONSUMERS TO MAKE SHOPPING FUN

In-store events are great opportunities to reinforce the positioning of the banner and differentiate the offering. Suppliers should understand the events offered at different stores. Retailers make significant investments to create these events; therefore, it's worth the effort to support these initiatives. Keep in mind this is the retailer talking to their customers.

Events take on many different faces. The most common events support seasonal initiatives such as Easter, Canada Day, Halloween and Christmas. Depending on the banner and market, it's becoming more common to see events created to celebrate holidays from many different cultures. This will continue to grow as the face of our consumer changes. Holiday events are common from one retailer to another. Items are usually close and the real point of differentiation is store execution.

Every retailer has events that are unique to them. These unique events are real opportunities for suppliers. Participation is perceived to be a show of support and more of a partnership. At the end of the day, both retailers and suppliers want to sell product, but these unique events are different. They are different because this is the retailer trying to differentiate its store from the one across the street.

There is a significant amount of planning that goes into creating merchandising events. The work will start months ahead and depending on lead-time for items, plans are finalized at least four weeks prior to the event happening. It takes coordination to procure items, build merchandising plans, develop point of sale signage and most importantly get the stores excited.

Event merchandising has become a critical part of the retailer's strategy to differentiate the banners. These are opportunities to create sales opportunities. It is incredible to think that one football game in late January will give North Americans an excuse to consume chicken wings, chips and pop for days. The Super Bowl is a great example of event merchandising that will drive sales.

Retailers are creatures of habit. A successful event will be executed year after year until it runs its course. Watch the stores and the calendar. If there is an event that has potential for your products, start to work on plans a year in advance and get the calendar from your customer to participate.

EVENTS CAN MAKE YOUR YEAR

In-store events should be monitored just like pricing. Keep a calendar of events and watch for sales opportunities. These events are planned months in advance so it is critical for suppliers to get options on the table early.

Merchandising events are designed to build traffic and create incremental sales. These events can be the difference between making a sales budget and missing it. Off shelf displays with Point of Sale (POS) signage that entice consumers to spend money are a great thing.

It's not possible to support every event, suppliers would go broke. Determine which are right for the items and the business. At times it is strategically important to keep your competition out.

Retailers check their competition frequently so remember to spread out the investment: you can expect a call if you declined to participate in one

customer's Chinese New Year but show up across the street. This does not mean you have to be everything to everybody but be prepared for the question. You must keep your investment consistent with the different customers as a percentage of sales and find the most effective vehicles at each retailer to deliver desired results.

SHOPPING EXPERIENCE IS THE ULTIMATE ATTRIBUTE

The shopping experience in store is crucial to the positioning of banners or formats. Of any of the attributes we have discussed, this is the most subjective. One shopper might like the look and feel of a Sobeys whereas another might be drawn to the market style stores Loblaw has been building.

Retailers spend a lot of time trying to define their target market. Once this is done they must build and execute stores designed to satisfy the needs of these consumers. Store design and fixtures play an important role in communicating positioning of the banner. These decisions have a direct impact on the investment in store and on the profit required to sustain the banner. Stores with expensive fixtures sitting on valuable real state must deliver a higher rate of return. Beautiful stores are only part of the mix as long as they contribute a profit.

Discount stores are designed to look cheap as it is part of the banner positioning. Simple fixtures and concrete walls communicate low prices to shoppers.

Colour will play a role in the positioning of stores as well. Loblaw has invested millions to convince people when they see banana yellow at No Frills that prices are lower.

The investment stores make in labour has a direct impact on the shopping experience. More hours cost more money, however, quality and level of service are important variables. The more staff available, the better the quality should appear to be. They are able to cull shelves and counters more frequently and keep great product available for sale. Consumers will pay more for better quality relative to other banners.

Quality of the service is important too. Many consumers really don't like to do grocery shopping. For most, the faster they can get in and out, the better. But one aspect is common – when they want to check out, they don't want to wait. More checkouts open and staff available helps ease the burden of shopping.

EXECUTION WILL BRING THEM BACK

One of the biggest impediments in the way of differentiation for retailers is execution at store level. The best-laid plans are all in vain if stores do not execute. Execution is the result of many things:

1. Great planning;
2. Robust systems;
3. Strong processes;
4. Sound data integrity;
5. Service level;
6. Effective merchandising fixtures at retail;
7. Engaged employees.

The first six points on my list are the result of a strong organization or they can be purchased. Understand where each of your customers has strengths and weaknesses on this list. They are all unique and suppliers must develop programs and plans to support these strengths and weaknesses. For example: if your customer is dedicated to planning 12 months out, then you must be ready for this timetable and get in front of their schedule.

Finding quality employees who are willing to stand for an eight-hour shift, work any day of the week and be compensated with minimum wage is more difficult than ever. We used to look at the employee base in a store or department and define them as warm bodies or real workers. Finding engaged part-time employees is a great accomplishment.

ENGAGED EMPLOYEES WHO EXECUTE ARE VERY VALUABLE.

Working in retail is also becoming more complex than ever. Stores carry a more diverse array of items and no one wants to have a customer ask you

a question you can't answer. Staff are expected to understand new items, execute merchandising plans, operate equipment and perhaps even operate a cooking school. Retailers expect a lot.

Recently, I had the opportunity to attend a cooking class at one of the retailers' community rooms. It was in the evening so perhaps the staff had been working all day but it was obvious there were many places they would rather be. They could not be less engaged in serving the customers and making it an enjoyable experience. We learned how to make the recipe but the atmosphere was very flat. By contrast the following day I was on a store tour and the manager and other employees could not have been more engaged. What a difference great employees can make.

SUPPLIERS ARE CRITICAL IN DIFFERENTIATION

Suppliers play a very important role in differentiating retailers. People are in these stores to purchase products that are created and produced by suppliers. The store and employees are the vehicle to get the items to consumers; ergo, the products are critical.

It is so powerful for suppliers to develop products and programs to support positioning of the banners.

The first thing suppliers must do is understand the formats of their customer. They have different stores for a reason. All product attributes should be reviewed to ensure they meet the criteria to support positioning of the banner. Sales, marketing, product development and production should have a solid understanding of the difference between an item for a large store, a traditional food store and a discount store. If we review the traditional 4 P's of marketing it is apparent one product should be offered in different options to support banner positioning.

	PRODUCT	PRICE	PLACE	PROMOTION
Large store	Larger size for value Middle of the road ingredients for price	Value	Most shelf space available	Flyer Shelf pricing program Space for full pallets
Traditional food store	Higher end Interesting ingredients Unique Best for seasonal items	Highest per unit	Best choice of fixtures More labour intensive Full service perishables	Theme ads Events High-low flyer program Locked in shelf pricing End caps
Discount store	Size to hit a price point Lowest cost of production	Lowest per unit	Simple fixtures Limited refrigeration No labour at retail Case cut	EDLP Flyer with low retail Pallet ready displays

Suppliers who follow this philosophy will have the greatest chance for success. Visit the stores of your customers and walk the store with a shopping cart. See the store as a consumer sees it. Challenge everyone in the organization to ensure items are the right fit for consumers and formats.

THE PRICE IS RIGHT IS MORE THAN A GAME SHOW

Retailers are preoccupied with pricing, suppliers should be too. Every time a cost is presented to a retailer, suppliers should have a very good idea where they will set the retail. Use history and category margin estimates to predict regular pricing and ad pricing.

The retailer's different formats have different category and department margin budgets. A discount store only needs to make 20% melded margin in grocery where as a traditional food store will need 26%. When determining product cost and size, consider these different parameters.

It is the retailer's job to price items but suppliers need to know where it will be. Suppliers must provide a cost that will get items priced at a retail that

will sell at regular price and in ad. There also must be reasonable profit for suppliers and retailers.

Suppliers should monitor ads and do price checks regularly. It takes 15 minutes to scan ads each week and the best thing about regular price checks is that it gets supplier's employees in stores. Ads can be reviewed online from anywhere. Depending on the category and volatility of pricing, it might only be necessary to check shelf retails every four weeks.

It is imperative for suppliers to know what is happening with pricing in categories where they compete. It also reinforces to category managers that the supplier sees the issue as important.

THE SHOE DOES NOT FIT THE SAME IN EVERY STORE

One of the most common mistakes from suppliers is the assumption that every one of their items is a great opportunity in every store. There is no doubt that one person will want that item, but will it generate the volume to earn the space on shelf?

Retailers have much more respect for suppliers who put together programs that include only items that will sell in each of their stores. It is much more productive to focus the conversation on true opportunities as opposed to sorting through items that are not the right fit.

The best place to do this is the store. Make a list of items in the category and determine where items will fit. It is important to understand national brand and control label offerings in the category. If you are going to displace an item it will be the branded product. In a small category with an established private label option it is probably better to look elsewhere.

A good exercise is to put yourself in the position of category manager. The shelf is not getting any bigger so: what do you suggest comes out or gets reduced facings to make room for your new item?

TO BE OR NOT TO BE — A CONTROL LABEL SUPPLIER

One of the most common questions I get asked by suppliers is "should I produce control label products?"

There are definite advantages and disadvantages to this strategy. It is critical for suppliers to have a clearly defined strategic plan which should determine the direction for the business. If the plan is to build a brand then control label could be a distraction, whereas if plant volume and efficiency are critical, then control label could be an important component.

The advantages to producing control label are:

1. Production volume;
2. Builds your relationship with retailer;
3. Control label suppliers are more important;
4. Reduces marketing and promotion costs;
5. Insight from control label team on production, food safety and trends;
6. Exposure to regions that might not have been realistic;
7. Shelf space that might never have been secured;
8. Participation in national events;
9. Flyer space that's devoted to control label might not have been achievable as a branded item;
10. Premium positioning on the shelf for control label.

The disadvantages of producing control label are:

1. The supplier does not have a brand in the market;
2. Retailer has considerable more power over the business;
3. Must comply with audits and retailer defined food safety;
4. There are hidden costs for packaging and events;
5. Some liability for packaging you can not re-use;
6. Some retailers demand exclusivity;
7. Supplier is at the mercy of retailer's sales forecasts;
8. Suppler is impacted by the retailers merchandising, execution and commitment to the item;

9. Volume can be lost due to competitors producing cheaper;
10. A supplier producing for one retailer can have challenges at other retailers, they are perceived to be entrenched across the street.

Suppliers should review the list and determine which attributes are most important in their business. It is a difficult decision to make. Regardless of the company's perspective, suppliers who have an answer for the question before it is asked are most respected.

PLAY YOUR PART

When creating annual sales plans suppliers must consider the efforts the retailers are making to differentiate their offering. Wherever possible support the differences and develop a unique plan for each retailer.

Consider the analogy to children; are you developing a sales plan for the sport focused competitive teenager, the more gentle craft-loving princess or the one with abundant energy and the outgoing personality?

THREE KEY POINTS TO SUPPORT DIFFERENTIATION

1. Develop products and programs to support the positioning of the banners;
2. Treat each retail customer differently;
3. Will you produce control label products in your business?

How can you support differentiation?