

The buck starts HERE

By Dr. Brian Harris and
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Occasionally in the modern history of the supermarket business, an opportunity arises of such universal economic and methodological importance that it galvanizes the entire industry to progressive action. Such was the case in 1993 when an industry working group introduced us to the concepts behind Efficient Consumer Response (ECR). This triggered a broad-based initiative that transformed supply chain and category management practices and unlocked billions of dollars in enduring economic benefits for retailers, manufacturers, and consumers.

An exciting opportunity is before us today that may be of comparable significance. It concerns the urgent need for the development of new, more effective practices for In-Store Implementation (ISI), the collective physical and informational tasks performed at retail to carry out merchandising, marketing, and media plans in the store.

The ISI Sharegroup, an industry group of retailers and manufacturers that we helped form, has spent the past year studying the role and implications of ISI. The group has assembled an issues analysis and proposed agenda for the industry in a new working paper released this month (<http://www.instoreimplementation.com>). Titled *In-Store Implementation: Current Status and Future Solutions*, it argues that the next leap forward will be all about "getting it right" in the store.

Sharegroup members believe the available opportunities from improved implementation to the

retail consumer products (RCP) industry to be broad-based and substantial. The best estimate is that the bottom-line cost of present suboptimal merchandising performance is about 1 percent of gross product sales, or \$10 billion to \$15 billion of the \$1.5 trillion total U.S. annual volume across the food, drug, and mass channels. They identify several important contributing factors behind this estimate:

- Half of all authorized retail and promotional displays aren't erected or are erected late, amounting to an estimated \$25 billion of ineffective spending annually by CPG manufacturers.

- Sharegroup members estimate that 86 percent of merchandise on hand in supermarkets reflects quantities in excess of seven days of supply, accounting for \$46 billion in stagnant capital industrywide, with an annual cost of funds exceeding \$3 billion in lost profits.

- Paradoxically, chronic shelf-level oversupply coexists with our intractable out-of-stock problem, which GMA reports have estimated at 8.3 percent of items overall—much higher on fastest-turning and promoted items. This

affects \$20 billion or more in grocery sales, either as outright losses or substitutions.

- These megacosts are reflected collectively in lower corporate profits and shareholder equity, higher prices to the consumer, and a less satisfying shopping experience. They may be substantially mitigated by collective action.

The In-Store Implementation Sharegroup came together in 2007 as a collaborative effort among retailers, manufacturers, and third-party service providers, aimed at improving performance at retail of category plans, merchandising plans, promotion plans, and shopper marketing and media initiatives. Sharegroup companies include Anheuser-Busch, Driveline, General Mills, Giant Eagle, Nestlé, PepsiCo, Procter & Gamble, Retail Tactics, Schnuck Markets, The Partnering Group, and VSN Strategies. Its primary purpose is "to provide innovation in store execution and compliance management with a positive impact on retailer-supplier understanding and actions."

The new working paper is the outcome of more than a year of study and effort by Sharegroup members. During this period, the group has attained a consensus in several areas, notably:

- Existence and scope of the In-Store Implementation opportunity.

In-Store
Implementation
is a call for
industrywide action
to, once and for all,
assure the best-laid
merchandising and
marketing plans
don't die at the
receiving dock.

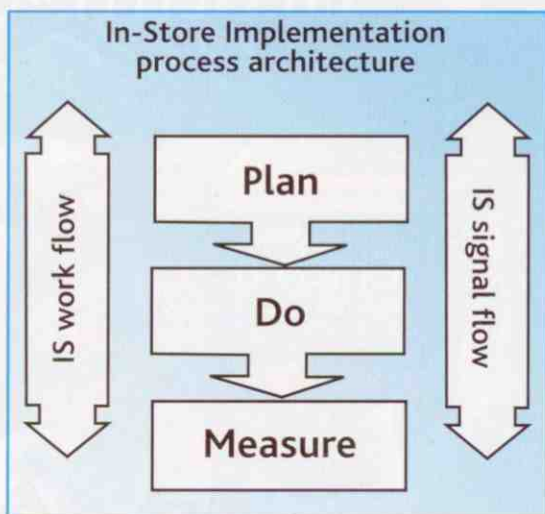


Fig. 1: High-level ISI architecture defines a "Plan-Do-Measure" process cycle.

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- Hypotheses as to the underlying causes and persistent suboptimal practices that lead to ineffective implementation.

- Estimates of the current benefits available from improved ISI practice.

- Priority areas for ISI best practice development.

- Goals and process of the ISI Sharegroup itself, including its role as a catalyst for a broad-based industry initiative focused on improving In-Store Implementation.

Culture of compliance

To address these opportunities, the ISI Sharegroup members now call upon retailers, manufacturers, third-party merchandising services organizations, and sales and marketing organizations to join in cultivating an industrywide *culture of compliance*. The performance levels of the past are no longer sufficient; the industry must adopt and maintain greater expectations in fundamental aspects of merchandising and shelf management. This begins with new expectations for assortment and space allocation, and extends further to encompass planogram compliance, new items' speed to shelf, and all aspects of display and promotion compliance.

This may not sound revolutionary, but across-the-board improvement of ISI fundamentals won't be a trivial undertaking. Under optimal circumstances, ISI would encompass compliance, measurement, and communications activities. Its practices would be everyday, embedded, and continuous in nature. Its methods would be enabled by communications and database tools, but it's not a technology in and of itself.

In-Store Implementation is defined by a "Plan-Do-Measure" process cycle that controls implementation plans and work, and communicates implementation signals (See Fig. 1) on page 42. "Plan" in this context refers to planning of implementation actions, not category or promotional plans *per se*. "Do" refers to the carrying out of store-level tasks required to maintain compliance and monitor conditions on the selling floor. "Measure" refers to the ongoing evaluation of the data flows emanating from the ISI process in near-real-time, so they may be accessed by decision-makers at HQ and in the stores.

The ISI opportunity results in part from unintended and unanticipated consequences of the ECR movement, and it offers the potential for equal or even greater economic benefits. ECR was a spectacular success at instituting supply chain efficiencies, but its gains have sometimes been diluted after goods cross the thresholds of store receiving docks. Limited in-store visibility has prevented the industry from tack-

ling this part of the challenge—until now.

"ECR's supply chain gains caused some of the inventory burden to be shifted to the shelf," says one ISI Sharegroup member. "The supply chain is now highly visible and closely measured, while the store-level merchandising all too often lacks visibility and is unmeasured."

One of the persistent causes of in-store compliance problems is the mismatch between case-pack sizes and appropriate shelf space for slower-turning goods, observes another ISI Sharegroup member. Where a full case of merchandise represents more than two weeks of expected sell-through, the result is misalignment between the supply chain and the shelf. This may lead to inconsistent in-stock position, double handling of goods, or an inappropriate assortment. Shelf capacity-based planning would ease the in-store implementation burden, by ensuring that only the right quantities arrive at the shelf with the right timing and the right implementation expectations.

Sharegroup members say that inconsistent implementation makes accurate forecasting a near impossibility because the causes of outcomes can't be known. The ongoing shift toward an even more granular, localized approach to consumer insights and category and promotion planning will make managing present implementation problems even more complex.

For all of these reasons, the RCP industry needs to thread more and better connections between the demand signal (local shopper behavior), the supply chain, and the in-store operating process (effective ISI practices).

Best practice identification

A goal of the ISI Sharegroup will be to assemble a preliminary library of current best practices in In-Store Implementation and other aspects of store-level compliance. It will accomplish this through contributed case studies. The Sharegroup will identify exemplary ISI practices, and then spread the word; this in turn can spur collaborative development of new, game-changing best practices.

The Sharegroup has identified two ISI areas to be of the highest priority for the development of improved practices, due to their "foundational" nature. These are development of improved processes and standards for shelf management, and development of improved processes for "store capacity-based planning."

Grocery list

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Establishment of new industry implementation best practices as routine, embedded business processes would ultimately bring benefits on three strategically vital fronts: (1) It would result in both improved ROI on activities and elimination of unnecessary, even counterproductive activities. (2) Improved implementation would bring greater discipline to new product initiatives and promotions. (3) Better implementation would improve our ability to measure outcomes of shopper marketing activities.

The mission of the In-Store Implementation (ISI) Sharegroup is to provide a platform for executives from all sectors of the industry, including retailers, manufacturers, trade associations, in-store service providers, and brokers, to define the best practices, procedures, and technology required to efficiently execute category plans, displays, and other

in-store sales and merchandising activities.

Call to action

The new ISI working paper argues in favor of a collaborative, industrywide initiative aimed at closing the implementation gap. It proposes a path toward greater cooperation between retailers, manufacturers, and third parties that would ultimately enhance customer experience and industry profitability. New industry best practices for In-Store Implementation must be developed, tested, enabled, and promulgated. Winners will incorporate ISI best practices into their everyday business processes.

With the release of this document, the ISI Sharegroup is sharing a vision for a more compliant, and therefore more effective, future. We encourage the greater community of retailers, manufacturers, third-party merchandisers, and thought leaders to join in this pursuit. The beneficial outcomes we hope will follow should be the result of many individual efforts in parallel. Ultimately, our consumers will gain most—in terms of better value and superior shopping experience.

The industry must adopt and maintain greater expectations in fundamental aspects of merchandising and self-management.



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