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## Refresh or Remodel: How to Stay Relevant in Tough Times

By Paul Weitzel

### The Benefit

Relevancy means everything in today's very difficult retail environment. Relevant prices, relevant ads and displays, relevant assortment, and a relevant shopping experience are all key to winning shoppers and shopping trips. Has relevancy really changed that much during these difficult times? Many grocers will tell you that they have been caught off guard by how fast relevancy has shifted over the past two years.

The cost of keeping stores relevant has accelerated and is putting time and financial pressures on retailers to rethink how they will keep up with current shopper needs and shifts in shopping behaviors. This month's *Competitive Edge* takes a look at how retailers can spend less to maintain relevancy while reacting faster to changing times.

### Why Is Relevancy So Important?

According to Wikipedia, relevance or relevant is "a word used to describe how pertinent, connected, or applicable something is to a given matter." As we think about grocery stores, relevancy is everything. The more a store is relevant, the more connected shoppers are to that store and the less likely they are going to shop somewhere else.

In today's competitive and challenging retail environment, it's very important to know how truly connected a consumer is to a particular store or banner. Today's consumers have more choices than ever before on where they will shop for their weekly grocery products. There are more alternative outlets selling grocery products (visit our website for the latest report on the *Future of Food Retailing*), we have more square footage than ever and we have to drive less distances today to get our groceries. More choices means more competition for share of wallet.

Retailers are finding loyalty can be a fickle thing and they have to work twice as hard today to connect with shoppers and maintain their business. That is one of the reasons why we are seeing a large increase in the number of shopper gateways and shopper marketing programs emerge in the marketplace. Companies like dunnhumby, EYC, and LMG are developing some very sophisticated shopper marketing programs for some of the big chains who see the need to significantly upgrade their ability to truly connect with important shoppers and households.

## Why Is Relevancy So Important? (Cont.)

The bar has definitely been raised and retailers are trying to be more relevant with their shoppers. Retailers are spending more money. They are putting more long-term strategy into the planning process and they understand it's only going to get more difficult to create strong loyalty. Being relevant is everything and the key to future success.

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### Top 10 Ways to Be Relevant

While there are many things retailers can do to be more relevant, here is a list of the top ten ways I think retailers can be more relevant with their shopper base.

- 1. Ensure every endcap communicates a strong price image, consistent with the overall store pricing strategy.** Too often, ends are sold to the highest bidder or are used on discounted product with a TPR (temporary price reduction) that is still higher than the competitor's everyday price across the street. Every inch of endcap space must count and it needs to be used to send a clear and compelling price image. If it isn't used this way, this valuable real estate is wasted.
- 2. Reduce shelf clutter.** Many stores now average 7,000 temporary price reductions a week. This is double the number compared to an average week back in 1990. Some aisles have so many tags that it's getting harder and harder to see product on the shelf. Shoppers get turned off when stores make it hard for them to find the items that they want.
- 3. Apply SKU Rat, but adjust rules on a category-by-category basis.** Store-wide SKU Rat programs are being implemented today with consistent variety reductions across the board (15% cuts). Early results are in and confirm that straight, deep cuts across the store are just too much, too fast for shoppers to accept. Customer complaints are up and some retailers are racing back into the stores to add variety on many categories that were cut. The concept is sound but the execution is flawed. SKU Rat should always be done on a category-by-category basis.
- 4. Build more efficient and easier to shop stores.** All of the store optimization work we've done over the years suggests the optimal store footprint is around 40,000 square feet. This size store produces the best ROI. With the aging of America (older people don't like to shop big stores), high cost to run big stores, and growing list of outlets consumers are willing to shop at, stores can become more efficient and more relevant in less space.
- 5. Improved speed-to-shelf for new items.** As a whole, our industry has done a better job in recent years of getting new items on the shelf. What once took six to eight weeks to get new items to the shelf, we are now consistently doing it under two weeks. For many categories, new items represent 100% of the growth. If you are the last in the market to get new items on the shelf, you run the risk of missing most of the category growth. This opportunity, however, needs to be balanced with the costs of resets.

## Top 10 Ways to Be Relevant (Cont.)

- 6. Minimize Out-of-Stocks.** Thirty years ago, grocery stores averaged 8% out-of-stocks. Today, we still average 8%; however, out-of-stocks on promoted products are worse. We have twice as many TPRs in a grocery store today than 30 years ago and our ability to forecast promotional sales have not improved. We have to do a better job of ensuring there is enough promotional product and labor in the store to maintain full shelves on popular promoted product.
- 7. Eliminate unnecessary categories.** Retailers need to offer stores a stronger shopper evaluation equation. Getting out of unproductive, low innovation, low growth, low loyalty categories is the right thing to do. Shoppers have expanded their set of stores they shop at and supermarkets can no longer afford to be the “general” store and carry everything. This is a paradigm that we definitely have to shift.
- 8. Don’t forget to celebrate food.** Food provides an important connection for families and friends. Whether you are sitting down for a meal with your family or having friends over for a special occasion, food continues to be an important aspect of how we celebrate life. Stores need to reflect this celebration in department layout and overall in-store experience. Supermarkets don’t have to be a “foodie” format to celebrate food.
- 9. Ensure you have adequate labor.** Sophisticated labor scheduling systems can adjust labor based on demand by day, by department. When times get tough and same-store sales decline, retailers can dial the labor too tight and create in-store service problems. This often leads to higher levels of out-of-stocks and creates what we refer to as the death spiral. Retailers need to maintain acceptable levels of labor standards that keep out-of-stocks at normal levels, even during tough times.
- 10. Get on a faster store refresh schedule.** Shopping behaviors are changing very quickly and store layouts, space, and assortment levels have not kept up with consumer needs. There is an opportunity to shift funding from traditional store remodels to a lower cost refresh approach and significantly improve your ROI.

This last opportunity is an emerging area that holds significant upside for retailers. A remodel versus refresh discussion is covered in more detail in the following section.

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### Refresh or Remodel?

Most retailers today are still on a seven-to-ten year remodel schedule. While seven years used to be the norm, more retailers are trying to extend this schedule because remodel costs have gone up significantly in recent years and sales are down. The average total store remodel today costs \$3.5 million for décor, equipment, fixtures, and labor. Add in lost sales during the remodel period and the loss from markdowns and remodels end up costing grocers approximately \$3.7 million per store.

**Refresh or Remodel?  
(Cont.)**

The average remodel generates a 7% sustainable sales lift. That means for a store averaging \$500,000 per week in sales, grocers can expect to recover their investment in seven years.

**Store Remodel with 7% Sales Lift**

Annual Sales Gains	\$ 1,820,000
Annual Gross Profit Gains	\$ 528,000
Remodel Capital & Store Reset Labor	\$ 3,500,000
Profit Loss from Sales Degradation	\$ 158,000
Profit Loss from Markdowns	\$ 50,000
<b>Total Costs</b>	<b>\$ 3,708,000</b>
<b>Payback in Years</b>	<b>7.0</b>

While remodels are necessary to keep stores looking modern, more retailers today are looking for ways to improve store sales without having to invest in all of the capital for décor, equipment, and fixtures. One way they are doing this is by refreshing only the center store departments. A refresh of the center store allows retailers to maintain the relevancy at a much lower investment cost.

A center store refresh costs about \$100,000 in equipment, fixtures, and labor which is significantly less than the \$3.5 million capital required for a remodel. Again, add in the lost sales during the refresh period and the loss from markdowns, and the total cost for a center store refresh is around \$230,000 per store, just 6% of the remodel cost.

A typical refresh can generate a 3% sales lift across the center store (**Source:** Willard Bishop optimization work). That means for a store averaging \$500,000 per week in sales, grocers can expect to recover their investment in approximately eight months (.7 years).

**Center Store Refresh with 3% Sales Lift**

Annual Sales Gains	\$ 1,092,000
Annual Gross Profit Gains	\$ 316,680
Refresh Capital & Store Reset Labor	\$ 100,000
Profit Loss from Sales Degradation	\$ 95,000
Profit Loss from Markdowns	\$ 33,000
<b>Total Costs</b>	<b>\$ 228,000</b>
<b>Payback in Years</b>	<b>0.7</b>

For every store remodel, a grocer can complete 16 center store refreshes for the same working capital and at a significantly better payback. Touching more stores more frequently is a great way to stay current and maintain relevancy with key customers.

## Refresh or Remodel? (Cont.)

Looking ahead, we expect more retailers to allocate a portion of their remodel budgets to create a store refresh program that generates a significantly better ROI. A center store refresh program will require:

- ▶ A macro-space optimization capability.
- ▶ Access to good rest-of-market gap data.
- ▶ Ability to mobilize labor across more stores.
- ▶ Strategy on how to best use the ends.
- ▶ Good affinity data to determine optimal category adjacency and flow.

Every dollar is tight. Converting capital from remodels to refresh more stores is a good first step to ensuring retailers maintain relevancy with their best shoppers.

### Next Steps

It's clear that relevancy will be a key to future growth. We believe more retailers will shift capital resources from traditional remodel budgets to a more tactical refresh schedule so more stores can stay relevant with an increasingly demanding shopper base.

To learn more about how you can benefit from a center store refresh program, contact Paul Weitzel at 847-381-4443 or [paul.weitzel@willardbishop.com](mailto:paul.weitzel@willardbishop.com).

### Willard Bishop's Product Offers:

**Total Store SuperStudy™** - The Total Store SuperStudy™ is the most comprehensive information on total store performance in the supermarket industry today. The study is completed every two years and provides visibility into the performance of every category and sub-category across three leading supermarket chains, delivered through a robust online web application.



**Private Brand Performance Gauge™** - The Private Brand Performance Gauge™ helps you understand the profitability of private brands, by category, so you can drive category performance and better understand the potential impact of private brands on your business. Delivered through a white paper and a set of analytic scorecards.

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