

FRESH PRODUCE IN BRICK-AND- MORTAR STORES

*How the Largest Source of Shrink Can
Become the Key to Success in 2020*



A collection of data and insights from Nielsen combined with the results of successful case studies in reducing shrinkage from industry leaders.



Combating Shrink

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In grocery stores, produce shrinkage is nearly double the amount of shrinkage of other retail outlets. “Shrink” refers to the dollar value of inventory the store technically owns but is unavailable for sale. While there are a number of factors that contribute, only 36% of retail grocery store shrink comes from theft or other dishonest behavior.¹ The majority of shrink is the result of inadequate store operations and procedures. Coupled with the fact that, historically, grocers have some of the lowest margins at 2.5%, the success of the store is going to rely heavily on a careful balance of properly trained personnel as well as effective (and closely monitored) procedures.

It’s not impossible, by any means, for retailers to turn the fresh-food category (the category which is typically the largest source of shrink in a retail store) into the most profitable. Understanding the leading causes of shrink and developing proactive strategies to prevent them will be the biggest key to success.

In-Store Operational Issues: Incorrect signage, products not brought to the sales floor, an excess of inventory, or sub-optimal pricing strategies are just a few of the issues that can go wrong at the store-level.

Even the most detail-oriented manager can overlook signage or stock issues. Which is why it is important to rely upon the technological advances in inventory and sales analysis tools available today. When utilizing these tools, such as AI technology, alerts can be sent to store managers when items are not moving from store shelves. This is vital when it comes to perishable items and could make a huge difference in the bottom-line. One grocer with 23 locations added \$47,287 per store per year by utilizing AI technology.²

¹ Hazelden, Barbara, “How to Fight Shrinkage in a Grocery Store,” Small Business – Chron.com., Hearst Newspapers, LLC, retrieved 08 January 2020 from: <https://smallbusiness.chron.com/fight-shrinkage-grocery-store-67002.html>

² “CB4 & Heinen’s,” retrieved 08 January 2020 from: <https://cb4.com/customers/cb4-heinens/>

Other times, the issue is less about the product placement or signage, but more about fact-based ordering. For example, Mark Vanderlinden, former vice president of produce merchandising for Price Chopper, analyzed which bakery and fresh-cut fruit items had the most shrink in 2005. Mark implemented an item-level profit analysis made with Fresh Market Manager category management software (made by Park City Group). The software found 379 of the company's 1,500 fresh bakery SKUs had a negative impact. These products were identified as slow or non-moving SKUs taking up valuable shelf space. As a result of their findings, they cut 680 items and reduced shrink by \$2 million while producing a 3% increase in sales the first year after implementation.³ This is just one example of how fact-based ordering can simultaneously reduce shrink, increase availability, and allow for fresher products.

Improperly Trained Personnel: When employees are thoroughly trained, they are valuable assets in the battle against shrink. From implementing loss prevention methods, to understanding the many nuances of the product being stocked, properly trained personnel can positively impact the bottom line. One European chain found a significant reduction in shrink after offering special training to their employees which taught about the different maturation rates of produce, and that stable items should not be stocked on the same shelf as fragile items (such as peaches).⁴

Errors at POS: GS1 Barcoding was first introduced in 2001 to meet the emerging business needs of the time. The Perishables Group (now: Nielsen Perishables Group) worked in conjunction with the UCC, or Uniform Code Council, to quantify the costs and benefits of RSS in perishables (RSS stands for Reduced Space Symbology). However, that title was retired several years later. It is now universally referred to as the GS1 DataBar barcode.

After conducting in-store evaluations of barcodes on perishable items, The Perishables Group found the end result to be an annual operating savings at retail of over \$2.32 million in produce for an average 100-store chain.⁵ As of June 2011, GS1 DataBar is the mandated barcode type for retail coupons in the U.S. and is widely recognized as the single most beneficial tool in reducing errors at checkout.

The PMA (Produce Marketing Association) has also realized the many advantages of the implementation of the GS1 DataBar to both retailers and suppliers in comparison to PLU codes alone. From a reduction in Point-of-Sale transaction times to enhancing Computer Assisted Ordering processes, the benefits of GS1 DataBars reach far beyond the limited information provided by PLU codes. Their published findings show that gross margins increased due to accuracy with scanning versus PLU entry. Specifically noting that cashiers often memorize PLU



³ Enis, Matthew, "Retailers Reduce Shrink, Improve Fresh Food Sales," Supermarket News, Informa USA, Inc., retrieved 08 Jan 2020 from: <https://www.supermarketnews.com/archive/retailers-reduce-shrink-improve-fresh-food-sales>

⁴ Buck, Raphael, Minvielle, Arnaud, "A Fresh Take on Food Retailing," McKinsey & Company, retrieved 08 Jan 2020 from: https://www.mckinsey.com/~media/mckinsey/dotcom/client_service/retail/articles/perspectives%20-%20winter%202013/3_fresh_take_on_food_retailing_vf.ashx

⁵ "Quantifying the Costs and Benefits of RSS in Perishables," The Perishables Group, Inc., retrieved 08 Jan 2020 from: https://www.gs1.org/docs/barcodes/RSS_Perishable_Cost_Benefit_Study_Aug2001.pdf

codes and sometimes make mistakes or do not read the PLU sticker, assuming that the product is conventional when it is organic and enter the wrong code.

The PMA has even created a tool to assist the industry with the implementation of GS1 DataBar barcodes. The tool enables sellers of produce to communicate their item level GTINs and corresponding PLU codes to their buyers. Buyers can download the information into their POS systems for scanning on loose/bulk items.

Most recently, in November 13, 2019, CPMA and PMA issued a joint press release announcing that generic UPC's would no longer be issued beginning January 1, 2020. According to the PMA, "Generic UPC usage is starting to be phased out by some retailers, and it is predicted that more retailers will follow this path." The PMA, along with GS1 US, created a webinar called "*Generic UPC's and DataBar: Changes Coming in Produce Product Identification.*" The webinar was recorded and will be available for playback after March 1, 2020 on the PMA website.⁶

When a customer scans produce using a barcode, there is no mistaking the item number, type (organic vs. non-organic), or price calculation (weight vs. counting), making this a simple yet extremely effective tool in the battle against shrink.

The Shift to Shopping Online

"only 4% of the overall sales are represented by grocery sales, those same grocery sales account for nearly one-third of total growth..."

The number of Americans heading online to shop for nonperishables is on the rise. While only 4% of the overall sales are represented by grocery sales, those same grocery sales account for nearly one-third of total growth. U.S. Food and Beverage eCommerce is the fastest-growing product category online. Andrew Lipsman, the principal analyst for eMarketer, recently published a report titled "Grocery eCommerce 2019: Online Food and Beverage Sales Reach Inflection Point." In it, he wrote:

"We expect the category to grow at above-average rates for the next few years, but it will remain one of the least-penetrated ecommerce categories for the foreseeable future."

While the shift to online shopping may be alarming to brick-and-mortar stores, some retailers are realizing that these trends are also an opportunity for growth.

Nielsen Data and Insights

"top performers generate 43% of overall sales from perishable foods..."

In September of 2019, Nielsen Holdings released their insight⁷ compiled from data in their Total U.S. (all outlets combined) and Total Food View (Total U.S.) reports during the previous 52-week span. After segmenting stores based on the percentage of overall sales

⁶ "Generic UPC's and DataBar: Changes Coming in Produce Product Identification," Produce Marketing Association, retrieved 02 February 2020 from <https://www.pma.com/content/webinars/2020/generic-upcs-and-databar-changes-coming-in-produce-product-identification>

⁷ "Fresh and Focused: The U.S. Retailer Path to Winning Brick and Mortar," The Nielsen Company, LLC, retrieved 08 January 2020 from <https://www.nielsen.com/us/en/insights/article/2019/fresh-and-focused-the-u-s-retailer-path-to-winning-brick-and-mortar/>

from their fresh food departments, they found that top performers generate 43% of overall sales from perishable foods, as opposed to the segments for all retailers, where the average was 32%.

The difference being that top performers were selling more fresh produce and deli products. In this insight, they wrote:

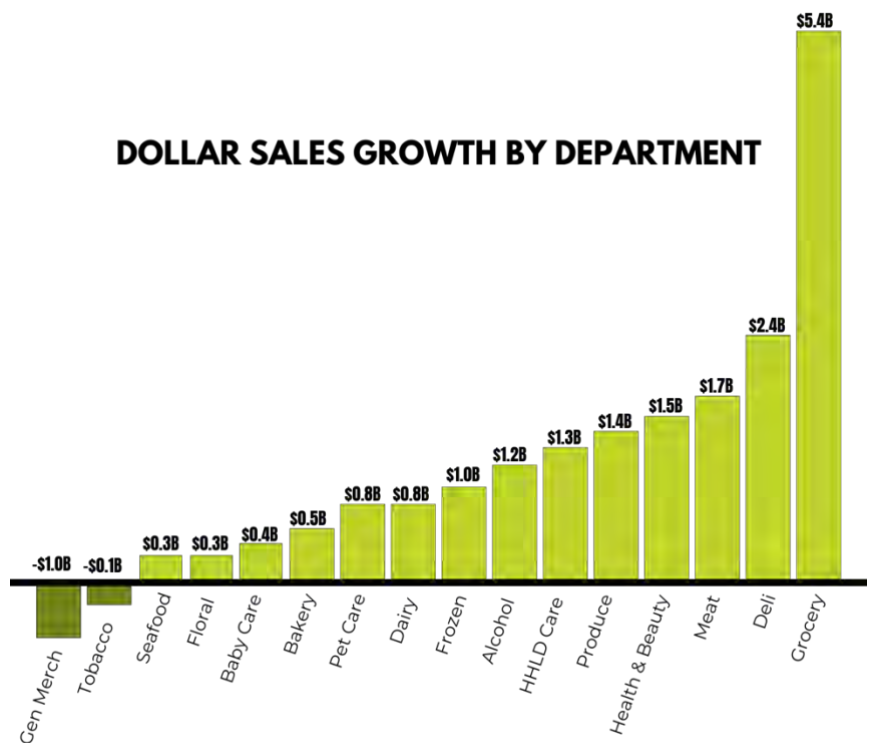
“For the most successful retailers, deli and produce departments provide the greatest contribution to total perishable sales...This debunks the long-standing belief that the meat department contributes the highest impact to the success of the perimeter of the store. And it likely reflects consumers’ changing wellness needs, as well as their growing demands for convenience.”

In an age where online shopping is becoming increasingly popular, specifically among the grocery sector, there is one category that is continually absent from the list of products commonly purchased online. Fresh produce and deli products, which are commonly available for purchase, simply are not being purchased.⁸ Furthermore, the Nielsen report found that shoppers who are routinely going online for their non-perishable items will spend 1.5% more in-store on fresh foods than shoppers who stock up on all of their needs in-store.

That means, not only are online shoppers more likely to save their trips to the store solely for produce and fresh foods, but, on average, they’re spending more on those products while they are there. In addition, two-thirds of U.S. consumers have increased their spending on fresh food over the last two years, and more than three-quarters are actively seeking healthier versions of the food they purchase while avoiding preservatives and chemicals.⁹

The conclusion of the Nielsen report urged retailers to put priority on investments in the fresh food sector, and with the provided data it’s clear to see why.

DOLLAR SALES GROWTH BY DEPARTMENT



Source: Nielsen Retail Measurement Services, inclusive of Nielsen's Total Food View, Total U.S. All Outlets Combined (xAOC), 52 weeks ended Apr. 27, 2019 vs. year-ago, UPC-coded and random-weight/Non-UPC data

⁸ “Consumers Remain Skeptical About Ordering Fresh and Frozen Food Online,” eMarketer, Inc., retrieved 08 January 2020 from: <https://www.emarketer.com/content/consumers-remain-skeptical-about-ordering-fresh-and-frozen-food-online>

⁹ “Deloitte Study: The Future of Fresh,” Deloitte Touche Tohmatsu Limited, retrieved 08 January 2020 from: <https://www2.deloitte.com/us/en/pages/about-deloitte/articles/press-releases/deloitte-study-the-future-of-fresh.html>

The Downfall of Online Produce

“they are concerned about freshness and temperature...”

Produce purchasing requires the consumer to look or feel the product to confirm freshness. Consumer surveys show that the inability to see items, like produce, before purchasing is a significant barrier to online grocery shopping. In fact, these surveys cite that 55% of internet users who have never ordered perishable items are avoiding those purchases specifically because they are concerned about freshness and temperature.¹⁰

With so much emphasis placed on freshness and quality prior to purchasing, even among the key demographic driving growth in grocery ecommerce, it’s safe to say that those same standards are applied when purchasing in-store.

Some of the top challenges for retailers when it comes to managing their fresh food departments included spoilage, product pricing, shelf life, and storage. Retailers who are considered leaders in the fresh food category are more than three times as likely to have a centralized staff, consisting of smaller teams, and fewer than 20 people managing their fresh food categories.¹¹ To capitalize upon the downfall of online produce sales, brick and mortar retailers should make every effort to provide a wide array of fresh produce and can maximize their success by following in the steps of other leaders in utilizing a small, centralized staff to manage it.



In Conclusion

Changing trends in online shopping are providing opportunities for retail stores to drill down their offerings to showcase items highest in demand for brick-and-mortar shopping. While fresh produce can be the largest source of shrink for retail superstores, utilizing the proper management software for ordering, properly training personnel, and streamlining POS with GS1 DataBar barcodes retail stores can maximize success in the fresh food sector in 2020.

¹⁰ “Consumers Remain Skeptical About Ordering Fresh and Frozen Food Online,” eMarketer, Inc., retrieved 08 January 2020 from: <https://www.emarketer.com/content/consumers-remain-skeptical-about-ordering-fresh-and-frozen-food-online>

¹¹ Shoup, Mary Ellen, “Deloitte: Fresh food spending is on the rise, but the store perimeter is still underperforming,” Food Navigator USA, William Reed Business Media, Ltd., retrieved 08 Jan 2020 from: <https://www.foodnavigator-usa.com/Article/2019/11/13/Deloitte-report-Consumers-fresh-food-spending-on-the-rise#>