

Impacting Product Presentation, Merchandising and the Customer Experience

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Section I Executive Summary

The in-store environment has become an increasingly important front in retail competition as the majority of shoppers make their purchase decisions in the store and impulse purchases remain a significant factor. With this in mind, it is critical that retailers provide a pleasant and engaging in-store experience for their shoppers to achieve long term success as chain competitors stress clean, uncluttered, and well-organized stores.

Key to the shopping experience is merchandising. Merchandising success means not only having the right product selection and assortment available, but also having products neatly presented to make it easy for the shopper to find what she is looking for. With so many more options available to shoppers today, retailers understand that the negative impression made by products in disarray and the frustration caused by inability to find the right product in a timely and efficient manner can send the shopper to a competitor.

In addition to lost sales, poor merchandising discipline can result in higher labor costs, as store personnel must take time to straighten products and bring them face-forward.

European supermarkets, faced with high real estate and labor costs, utilize merchandising fixtures to maintain product display discipline, maximize shelf space, and realize restocking efficiencies. A relative newcomer to the US market, merchandising fixtures from POS Tuning were recently tested by CART in a live learning lab (operating store) to determine the impact on sales, store labor related to restocking and merchandising, and the customer shopping experience. Overall, the fixtures provided a significant positive impact on units sold in key brands and sections in both the cereal and frozen foods categories, which were evaluated in this test. The quantitative results were reinforced by comments from the Store Director who clearly identified labor savings, improved merchandise presentation, and positive remarks from shoppers as key benefits to the POS Tuning fixtures.

Merchandising tests such as these are challenging, especially in the dynamic supermarket environment where there is a regular inflow of new products and delisting of older products. Retailers regularly re-merchandising categories and sections compound the challenges as they react to competition and search for any advantage.

The CART team's retail experience underscores the importance of viewing test results through both a qualitative and quantitative lens. The positive impact provided by an easier and less frustrating shopping experience can create customer value over time that can be difficult to manage in a short-term test. Comments from shoppers and store personnel help reinforce the importance of this perspective.

POS Tuning is a global provider of innovative merchandising and display solutions that has brought its products to retailers in North America. Building on the success in its home market of

Europe, where leading retailers utilize its products across many categories to great success, POS Tuning engaged CART to implement its solutions in key categories in a supermarket to prove their value.

Section II In-Store Opportunity

In-store has become the latest battleground as retailers and brands seek to influence the shopper at the point of decision. A 2012 POPAI study¹ points to the size of the prize: 76% of shoppers make purchase decisions while in the store with 55% of them unplanned. Video analytic data from supermarkets show that on average 20% of shoppers walking into a store do not make a purchase, bolstering the importance of the in-store environment. Findings such as these should prompt retailers to ask the reasons why. If a majority of purchase decisions are impulse, why are 20% of shoppers not making a purchase? Are shoppers uninspired by product presentation? Is shopping in the store too challenging? Does merchandising effectiveness play a role?

Section III The Merchandising Challenge

In an industry driven by top line sales revenue and thin profit margins, any increase to product sales, especially in underperforming categories, presents a clear win. But as anyone who has spent time on the sales floor of a supermarket becomes quickly aware there are many challenges associated with in-store merchandising, including:

Out-of-Stocks – Products being out of stock has been an issue since the advent of self-service supermarkets. Industry experts suggest the typical supermarket has an average out-of-stock rate of 7-8%, which equates to a sizable hit to sales. A study done by J.P. Brackman, in partnership with Procter & Gamble, “revealed that consumers can waste up to 20% of their time during a shopping trip searching for products that are not on the shelf.” The same problem costs a typical retailer about \$800 a week in lost labor productivity and about 4% in total sales; reduces the effectiveness of promotions; and sparks customers to defect to different brands or, in many cases, different shopping channels.”²

Poor Shelf Merchandising and Maintenance – Supermarkets are busy environments and operate with a very lean labor force. Those factors combine to create significant issues related to keeping shelves full, products front-faced, and the overall presentation well organized. The impact can be substantial: shopper frustration from not being able to easily find the product they seek leading to lost sales.



Figure 1. Example of poor shelf maintenance and merchandising.

Package Design – Some products are inherently problematic to display in a shopper-friendly fashion. Products like frozen pizzas are difficult to properly position so the shopper can easily see what the product is.

The impact to the retailer of not addressing these merchandising related challenges can be significant; decreasing sales revenue while simultaneously increasing costs. Video analysis of actual shopper behavior conducted in supermarkets clearly show the frustration shoppers have when faced with disorganized shelves and product displays. The impact of poor merchandising can be even more severe as some shoppers, when confronted by a frustrating shopping trip time after time, simply opt to not buy.

Losing sales is harmful enough but product disorganization is also costly to the retailer, adding to labor costs, as store associates must first straighten out the shelf before restocking.

Section IV Merchandising Solutions

Solving, or even mitigating, the out-of-stock problem is a costly, lengthy endeavor for supermarket retailers, typically requiring significant investment in new systems and forecasting technologies. And even in those retailers who have focused on the issue, progress is slow to be

realized.

There are however solutions available to address the more widespread merchandising issues of challenging package design, and keeping shelves organized and products front-faced for an easier and more enjoyable shopping experience. One can speculate that display and merchandising solutions adhere to the Pareto principle, providing 80% of the benefit for a reasonable investment.

On-shelf display fixtures and merchandising aids such as those provided by POS Tuning have been widely used in supermarkets across Europe. It is perhaps the high cost of real estate and high cost of labor that have driven supermarkets there to maximize sales from limited store can be found throughout many categories in the typical European supermarket.



Figure 2. POS Tuning shelf-pusher product examples.

POS Tuning, a German-based company with customers on 5 continents, opened its office in the North America market three years ago, bringing its merchandising and display expertise to supermarket retailers here. POS Tuning includes many notable top retailers amongst its customers and also has a history of working with CPG manufacturers to drive packaging and on-shelf display innovation. The company’s goals are to “tune” product presentation at the point of decision, helping increase sales, improve shopper convenience, and minimize shelf maintenance.

POS Tuning’s shelf fixtures are engineered for the high-volume supermarket environment, featuring high quality and high strength plastics and components. Laboratory tests have shown POS Tuning pushfeeds have no loss of performance after over 20,000 re-stocks. Their frozen food solutions, for example, can withstand temperatures as low as -15 degrees F. The pusher fixtures easily attach to the front of existing shelves and provide a solid and stable base. This stable base often allows for no rear fixation, making planogram changes simple for retailers.

Section V Test and Methodology

To validate the value of its solutions, POS Tuning worked with CART to implement its shelf-pusher solutions in two high-volume categories - cereal and frozen foods. The test was carried out in a mid-western retail chain using one store to conduct the test and another comparable store as the control.

POS Tuning installed the shelf-pushers across both categories; the pusher fixtures installed on top of the existing shelving.

The testing took place over a six-month period and used this year vs. previous year product unit movement comparisons. To account for the dynamics of new products and delisting of products, removing new or discontinued products from the results normalized measured products. What could not be accounted for was the impact of sale items during the test period (for example, a brand being on sale at reduced price more often or at a steeper discount than the previous year period) and the impact of increasing or reducing package facings.



Figure 3. Improved frozen food product presentation from using shelf-pushers.

It is also important to point out that any test such as this must be viewed through objective measures - such as product sales - and subjective results, such as the impact on ease of shopping, impression of shoppers, etc. There is an un-measurable “halo” effect driven by a

shopper's in-store experience that, over time, can significantly impact the lifetime value of the shopper. Feedback received by the Store Director in the test store is representative of this: "Everybody (shoppers) remarked how much better it was. Especially in some of the sections where we moved product to the pushers, like the frozen dinner section. The categories we used them in produced a night and day difference. Customers remarked on the improvement."

The test did not attempt to measure labor savings but did incorporate feedback from store associates who stocked products in the respective areas. According to the store director, the shelf pushers provided significant savings in both the cereal and frozen categories. "...the pusher system for cereal saved our team a good half hour (of labor) each day. In the frozen section it (labor savings) was upwards of an hour and a half per day." Using a loaded cost of \$15.00 per labor hour, this efficiency results in an annualized savings of an estimated \$11,000 from just those two categories. This cost savings becomes even more powerful as the test included the new POS Tuning fixtures in only an estimated half of the frozen food display cases.

It was determined that looking at the test categories in their entirety made it difficult to determine results. The dynamic nature of new products coming to the shelf, products being discontinued, temporary sales, and category resets skewed overall results. Looking at specific sections and brands presented a more meaningful story.

In the frozen pizza category, Palermo's brand products realized a significant increase year on year. In the control store Palermo's brand frozen pizzas saw an increase of 12.5% from the previous year when products were normalized (same products compared year on year). In the test store, using the POS Tuning pushers, Palermo's brand pizzas realized an increase of 17.6% year on year, a significant increase over the control store. DiGiorno frozen pizzas though did not experience an increase. Both the control store and test store saw a slight decline in sales of the brand; this could possibly have resulted from a reduction in offerings, as it appeared DiGiorno product selection had been reduced from the previous year.

When looking at frozen snacks (Hot Pockets) we again saw the benefit of POS Tuning's pushers. The control store saw a decline of 11.5% in units sold; the test store effectively held even (-0.5% in unit sales). Again, this was when normalizing product selection year on year.



Figure 4. Improved cereal product presentation from using shelf-pushers.

Similar results were seen in the cereal aisle. The Post brand cereal section experienced year on year unit sale increases in both the control and test stores; an increase of 25% in the control store and an increase of 22% in the test store. This slight difference can easily be accounted for by differences in merchandising between the two stores such as the number of facings each cereal (and sku) has on the shelf.

Quaker brand cereals showed a more clear benefit from the pushers. The test store experienced a gain of 2% in unit sales while the control store saw a loss of 6.3% in unit sales. A similar story is told looking at the popular General Mills brand cereals: The control store realizing a decline of 0.7% in unit sales while the test store realized a gain of 4.1% in units.

Section VI Conclusion

While the POS Tuning merchandising fixtures resulted in modest unit sales gains in the identified brands and categories, the benefit of improved shelf organization and product display was evident in comments received from both store personnel and shoppers. The fixtures helped address challenging products, such as frozen pizzas, maintaining them in an upright position so shoppers could clearly see the different varieties without having to constantly open doors to the frozen cases to find what they wanted. The fixtures clearly provided significant labor savings from making restocking more efficient; cost savings and efficiencies being critical to retail

success in the low margin supermarket channel.

As stated earlier, tests such as this must be viewed from both an objective and subjective reference point. Further comment from the Store Director in the test store emphasized this: “Overall, the (pushers) kept products inline and the presentation was awesome. People would miss things before and I don’t see that being a problem now. Shoppers could more easily find the products they wanted to go home with. I think it influenced sales in a positive way.”

Anyone familiar with retail supermarket environments, especially shoppers, instinctively understand the value of well organized shelves and neat and orderly product presentation to providing a good shopping experience for the customer.

Appendix

About NGA and CART:

The National Grocers Association (<http://nationalgrocers.org>) is the national trade association representing the retail and wholesale grocers that comprise the independent sector of the food distribution industry.

The Center for Advancing Retail & Technology (<http://advancingretail.org>) and NGA have partnered to connect its members to the NGA SolutionCenter and the NGA InnovationCenter, which helps them gain access to research, innovative and mission-critical technology solutions while providing valuable guidance and best-practices.

About POS Tuning:



POS Tuning is the global innovation leader for retail front facing shelf management solutions. POS Tuning offers an entire toolbox of front facing shelf management solutions (pushfeeds, illumination, theft prevention, stock management, brand staging, and other disruptive elements) optimizing the presentation of brands and categories at the Point of Sale. POS Tuning services over 120 countries worldwide helping shoppers find quickly what they are looking for, retailers save on shelf merchandising, and manufacturers increase sales. For further information, visit the POS Tuning website at <http://postuning.com>.

This CART-NGA case study was produced with essential cooperation from:



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Sources:

- ¹ Point of Purchase Advertising International 2012 Shopper Engagement Study (www.popai.com)
- ² “Out-of-Stock Conditions Not Improving”; Supermarket News, May 14, 2007