

*B*USINESS *S*TRATEGY *G*ROUP INC.

Retail Optimization Services



*Fresh Item Management Assessment
(FIMA)*

Capturing Maximum Business Benefits

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Putting Fresh Item Management in Perspective

“Most retailers lose more in fresh item shrink than they make in overall profit!”

“Since Wal*Mart, dollar stores and club stores are not making the management of fresh products a priority, grocers can gain an advantage by implementing a Fresh Item Management strategy to improve profit margins and customer loyalty.”

***Source: Fresh Item Management: One of the few Bright Spots for Grocers,
Peter Abell, Laura Carrillo, Janet Suleski
AMR Research***

Introduction

During the 1990s, companies such as Walmart and Target began building Supercenters offering a full compliment of supermarket products, including perishables. which were, at that time, the major differentiator of traditional grocery retailers. Their initial attempts at perishables merchandising, however, were lightly regarded by many in the grocery industry. Some even termed these large retailers' perishables initiatives, "laughable at best."



But nobody is laughing today! Both Walmart and Target, as well as many other major discount retailers, have quickly learned the key role perishables play in attracting and retaining customers in their stores. Major investments have been made to upgrade and improve these departments to get them closer to "best in class."

In addition to this intensified competition, perishable retailers are feeling the effects of increasing government regulation and consumer concern about food safety issues. Product sourcing, ingredients tracking, and complete and accurate labeling are not just a "nice to do," but are legal requirements.

Failure to comply with these requirements can expose perishable retailers to costly regulatory penalties, as well as the potential for customer liability, resulting in the possible loss of customers.

It is critical today that retailers offering perishable items redouble their efforts to refine and improve their fresh item management business policies, processes and procedures in order to maintain their market share, increase profitability, and build customer confidence

BSG's FIMA methodology delivers practical improvement recommendations that produce faster, quantifiable business benefits!

Business Issues

Perishables retailers are increasingly concerned about keeping their perishable costs down, while still providing high quality products and outstanding customer service.

The issues that are “top of mind” for these retailers include:



- **How do our operations compare to our competition and industry leaders?**
- **Do all our stores perishable departments meet our customers' expectations? Are we satisfying our customer demand?**
- **What are the policy, process and procedure differences between our top performing and bottom performing stores?**
- **How much additional profit would be gained from bringing our bottom stores up to the same performance as our top stores?**
- **Have we provided our associates with the enabling tools and accurate and timely information they need to be successful and serve our customers better?**
- **Do we have the proper metrics and measurements in place to ensure we can continually benchmark and improve our performance?**
- **Are there critical disconnects between our business policies, processes and procedures and our supporting systems?**
- **Are we fully complying with governmental regulations regarding product sourcing, ingredient and nutritional information and accurate labeling?**
- **Do our perishable products reflect our quality and freshness policies throughout all of our stores?**

BSG's FIMA expertise enables us to quickly assess the situation and rapidly define the opportunities for improvement!

The Value Proposition

The client value proposition of the BSG FIMA is to ensure that the required elements of an effective and profitable fresh item control and management operation are in place and integrated to produce better performance and profitability across all your retail outlets.

In addition, our clients will have a roadmap for replicating internal and external “best practices” for continuous improvement.

Based on the companies we have worked with, the “size of the prize” can be substantial:

- ***Perishables sales uplift***
- ***Perishables gross margin uplift***
- ***Greater production forecasting and planning accuracy***
- ***Increased sales dollars per associate hour across all stores***
- ***Reduced markdowns***
- ***Reduced spoilage and wastage***
- ***More timely, accurate and “true” shrink data***
- ***Reduced business risk – improved regulatory compliance***
- ***Increased perishables inventory ROI***
- ***Improved product availability and customer service (fewer out-of-stocks, lost sales)***














Regardless of whether your Company currently has a Fresh Item Management system or not, significant profitability increases can be generated from replicating “best perishables business practices” from inside and outside your company!

The Value Proposition

The following chart represents a compilation of results achieved by six clients across three perishable departments, accomplished through improvements in their fresh item management business processes, people disciplines and better utilization of enabling technology.

Exhibit 1
Measured Results Compilation
(Six Chains)

	Bakery	Deli	Produce
Sales	 + 17% (Overall)	 + 4% - 7% (Overall)	 + 12.0% (Target Categories)
Shrink	 - 30% (Overall)	--	 - 30% (Target Category)
Margin/Sales Improvement	 + 2% - 4%	 + 3% - 5%	 + 0.5%
Production Effectiveness			 + 20% - 50% Improvement

Successful perishables management operations require that the key elements of Processes, People and Enabling Technology be optimized to produce maximum business benefits!

The Value Proposition

An AMR research report highlighted benefits gained by early adopters of Fresh Item Management systems (see Exhibits 2 and 3). In addition, based on its research, AMR says a full Return on Investment **a full return on investment can occur between 3 and 12 months!**

Exhibit 2 Value of Fresh Items Sold

(Based on 20M annual supermarket sales, published industry percent of sales contribution for each fresh item department and average shrink across all fresh departments of 3.5%)

Department	% of Total Store Sales	Value if Store Sales Assumed to be 20M
Deli	4%	\$800,000
Floral	2%	\$400,000
In-store Bakery	2%	\$400,000
Meat & Seafood	15%	\$3,000,000
Produce	1%	\$200,000
Total Fresh Item Store Sales		\$4,800,000
Average Shrink Across These Departments		3.5%
Total Annual Fresh Item Shrink Per Store		\$168,000

Source: AMR Research

The Value Proposition

Exhibit 3

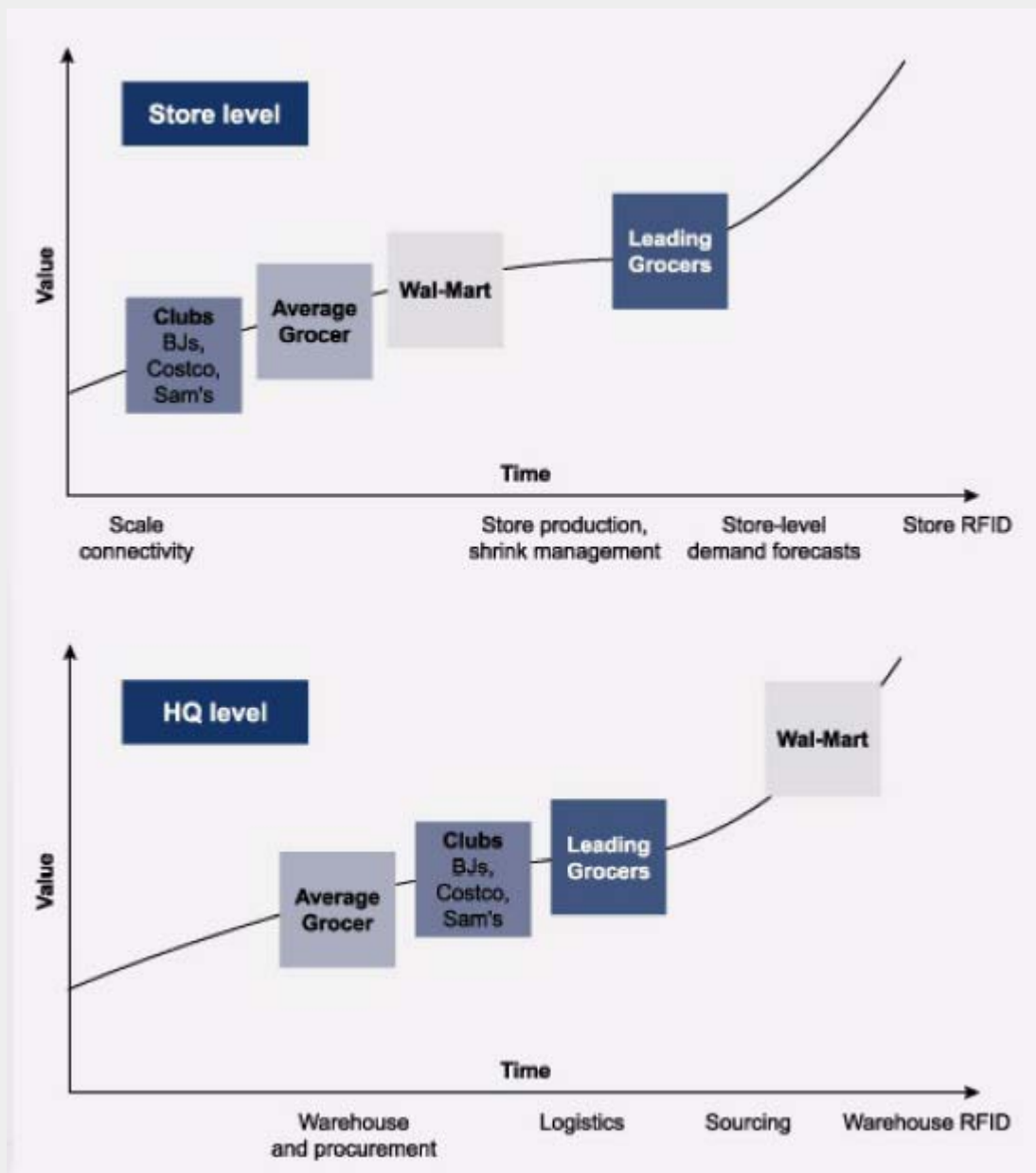
Shrink Reduction Benefits for 100 Store Chain

(Based on implementation of store-level fresh management production planning and inventory management systems)

Expected Benefits	Value
<u>Minimum</u> expected shrink reduction (on average)	15%
<u>Minimum</u> annual expected savings per store	\$32,760
<u>Minimum</u> annual expected savings/100 stores	\$3,276,000
<u>Maximum</u> expected shrink reduction (on average)	40%
<u>Maximum</u> annual expected savings per store	\$87,360
<u>Maximum</u> annual expected savings/100 stores	\$8,736,000

Source: AMR Research

Where Grocers Are on the Fresh Item Management Adoption Curve



Source: AMR Research

Criteria for Success

Successful perishables management and execution requires three key elements:

- **People**
 - Replicating top store performers chain wide
- **Business Processes**
 - Clearly defined business rules and operating procedures
- **Enabling application software**
 - Perishable management systems and support data



The first two elements are the most critical. Without optimizing your people and business processes, retailers can not achieve the maximum return on their perishables management **Technology (hardware and software) is not a silver bullet. It magnifies a retailer's strengths, as well as its weaknesses.**



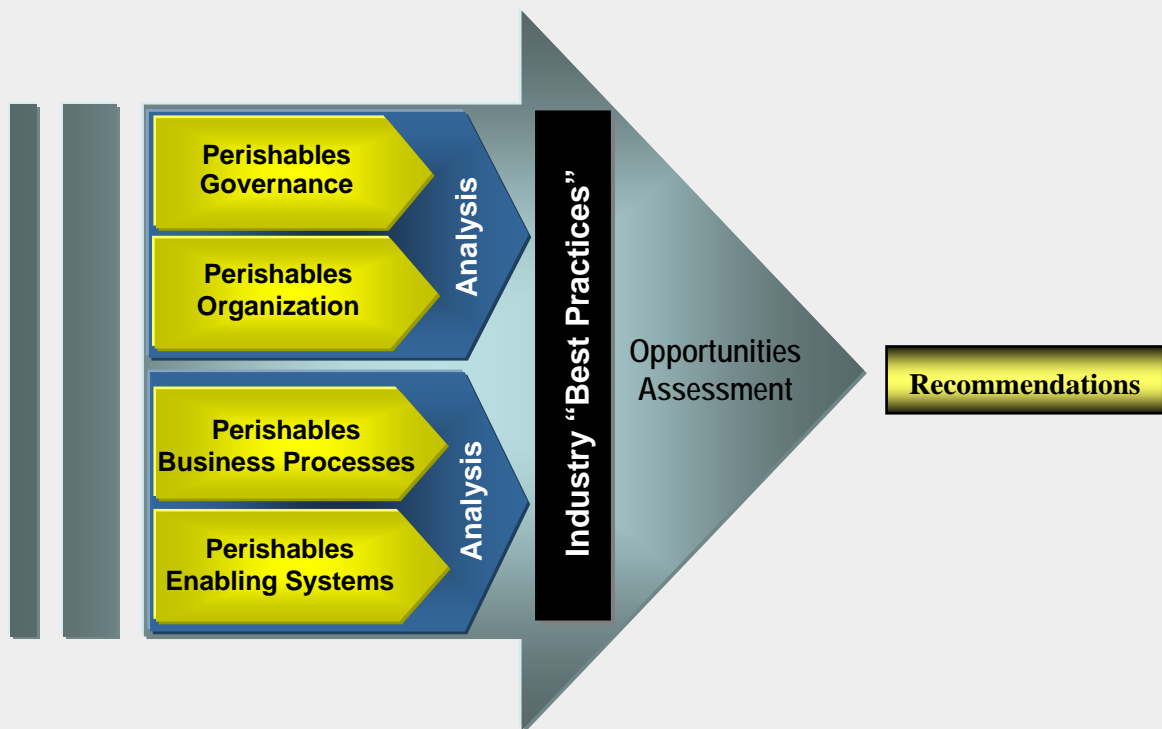
When these key elements are not aligned and balanced, the resulting disconnects produce major gaps in overall fresh item management effectiveness, efficiency and profitability, as well as the successful implementation of enabling application software. It also makes it more difficult to assure compliance with regulatory and product safety requirements, creating exposure to potential costly liability issues.

BSG's FIMA services help our clients balance and align their perishables operations for maximum efficiency and effectiveness!

BSG Approach

The BSG Fresh Item Management Assessment is a proprietary “expedite” methodology designed to generate business benefits quickly. We utilize only senior consultants, with extensive and practical experience in perishables management. Our FIMA approach is graphically presented in Exhibit 4, below.

Exhibit 4
FIMA Assessment Approach



To generate faster business benefits, our FIMA methodology focuses on one client designated perishable department at a time, providing a detailed analysis and documentation of that department’s governance, organization, business process and enabling application software. The identified business benefits and recommendations can then be implemented quickly to fund other perishable departmental improvements.

Continued on next page

BSG Approach (continued)

A representative sampling of stores is used to understand the reason for that department's store performance inconsistencies across the estate. The purpose of this work stream is to identify, document and replicate both internal and external "best practice" improvements across the entire store estate.



Because we only assign highly experienced perishables consultants, our clients are able to take advantage of their practical expertise, as well as our extensive perishables knowledge and methodology library. This helps clients develop a continuous improvement program for the reviewed department, as well as provide the foundation for applying that program to additional departments within the Company.

To expedite the initial discovery and evaluation timeframe, we prepare a pre-visit survey, to be completed by our clients before our on-site work begins. This adds to our ability to "hit the ground running," following your project approval.



To complete our assignment, our consultants will also require time with key client executives and store management and associates during our site visits. The time needed should not be onerous and we will make every effort to avoid disruption in your daily operation.

Following our discovery and analysis assessment, we will provide you with our documented recommendations and suggested next steps, enabling you to quickly implement the approved roadmap and begin to generate the projected business benefits.

BSG Areas of Perishables Expertise

Exhibit 5, below, outlines the depth of BSG perishables expertise:

Exhibit 5



The BSG Advantage

Our business model is to provide outstanding and practical value to our clients.

- **Strategic Analyses with Tactical Implementation:** *We combine our talents to provide our clients with the most qualified, knowledgeable and experienced consultants to deliver outstanding results and faster business benefits. You get our "sat in your chair" experience and expertise, which is both practical and relevant.*
- **Our "Virtual" Organization:** *We operate in a "virtual" environment, without the expensive offices and overhead of the traditional consulting firms. We bring our collective expertise and experience to you, as needed, without the necessity of leveraging an army of "junior consultants" and support staff. This means you only pay for the actual consulting services we provide.*
- **Our Team Approach:** *We work with you, not just for you, to insure our skills and expertise are transferred to your staff for sustainable benefits.*
- **Our Objectivity:** *We approach every assignment based on our objective analysis of what is right for our clients. There are no "hidden agendas," nor do we have any allegiance to anyone, but our clients. We do not have contractual relationships with, nor accept any compensation from, any business or technology vendors, who may be involved in client projects.*
- **Our Commitment to Quality:** *We focus on your business issues and always endeavor to exceed your expectations on every project we undertake.*
- **Our Commitment to Fiscal Responsibility:** *You know our fees and estimated time lines up front for each project. This helps both of us to insure on time, on budget project execution, without nasty surprises or "runaway projects" with a life of their own.*
- **Our Value Added Follow Up:** *YOUR success is paramount to OUR success. We don't just leave our project deliverables behind and move on to another client. We offer each client a NO FEE (expense only) follow up project execution assessment to help ensure you are achieving maximum business benefits from our recommendations.*

Representative Fresh Item Management Experience

We have been proud to assist some of the world's major retailers in optimizing their perishables management, including:



Associated Food
Stores



Tesco Stores, Plc



WaWa Inc.



Petro-Canada



Schnuck Markets, Inc.



Food Lion, Inc.



J Sainsbury Plc



Golub Co's.



Dairy Farm Group



Roche Brothers



Krispy Kreme



7-Eleven



Raley's Supermarkets



Harris Teeter



Albertsons, Inc.