

# Six Steps to Effective Fresh Item Management



**Achieving Sustainable Return on Investment**

***BUSINESS STRATEGY GROUP INC.***

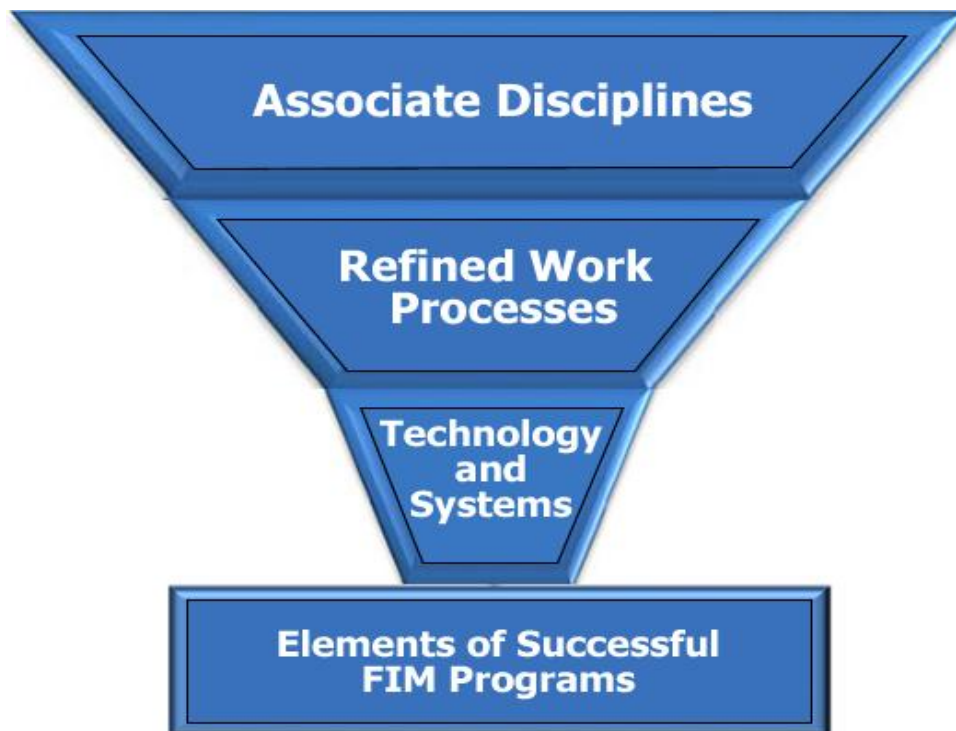
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## Introduction

Retailers, facing intense competition in an uncertain economic environment and rising commodity prices, are increasing their focus on keeping costs under control to improve their operating efficiency, while continuing to provide the highest quality products and customer service. Nowhere is this more important than in the fresh item departments, which for most food retailers is their major source of competitive differentiation.

Further complicating this effort are increasing government regulations and consumer concerns about food safety issues. Proper product sourcing, food handling, ingredients tracking, and complete and accurate production and 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, civil liability, and worse yet, a loss of customers.*

It is critical today for retailers to redouble their efforts to refine and improve their Fresh Item Management (FIM) business policies, work processes and procedures in order to maintain their market share, increase profitability, and continue to build customer confidence and loyalty. However, where do you start, what’s the best path and what priorities do you make?



(Figure 1 – Funneling your way to successful FIM)



Figure “1” on the previous page provides graphically what we know today. That is that retail begins with people. Everything we do today in retail is people centric.

**Without people we lose *the critical retail factor* and that is *service*.**



Facilitating your people are refined work processes. These can be the most critical. Without good process your work can be average or potentially detrimental to the business. Therefore

any new technology must enable refined work processes and opportunity to optimize your fresh item associates capability and ability to perform. If it doesn't do that, you will not receive the maximum return on FIM or any other technology investment for that matter.

**Retailers often focus on technology systems and expect a *silver bullet*.**



FIM is not just technology but a new business method that with enabling technology can (and will) deliver a more accurate and meticulous fresh category operation. Taken as *just technology* it can inhibit associate trust and cause disruption.

**Aligning and funneling FIM can ensure a *sustainable return on investment*.**



Not aligning and funneling your FIM initiative can result in disconnects and produce major gaps in overall fresh category performance. It can increase risk and also expose retailers to potential costly liability stemming from

non-compliance with regulatory and operational product safety requirements. More importantly not achieving your FIM objectives has large consequence on the future. Retailers must get ready in an almost viral marketplace to change quickly and economize to remain competitive.

This document addresses the “**Six Steps to Successful Fresh Item Management to drive Sustainable Return on Investment.**” It is based on BSG’s considerable experience and knowledge of *industry best practices* and founded on BSG’s proven thought leadership. Our leadership has been fostered via experience and listening about real fresh category business problems and employing innovative thinking and creative insights to help our clients improve their fresh practices and their business.

## Step 1:

### Get Your FIM House In Order

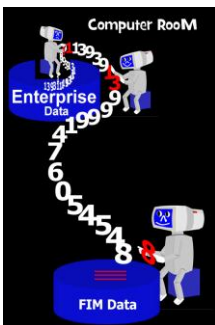


Every retailer has top performing fresh item stores. However many don't investigate how to really replicate this advantage to bring your underperforming stores up to the same performance as your top stores. Throwing new technology at this situation will not necessarily do that and replicate top performance across the chain. Nor, will working on legacy processes prepare the worker for the future. What if the transference to underperforming stores emanates from a lack of an easier process? Can it be that top performers are great because they simply have mastered a legacy process? So which comes first, the technology to learn what it can do to better prepare to do something more easily? Or, learning more about current best practices (often constrained by lack of technology) to prepare and potentially leverage a new technology for sustainable ROI? The answer is definitely both. Studies have shown multi-threaded processes done in parallel can improve speed of accomplishment at lower costs.

At BSG we employ a multi-threaded success process to help you gain immediate business FIM benefits before and while you fully implement any technology. We funnel your best practices into new action immediately while carefully modifying those practices to fully leverage new technology. We do this by implementing and taking advantage of interim benefits and accelerating your understanding to *know what you don't know* about new FIM technology, its needs and advantages. Deployment change models often offer low fruit advantages and business benefit because they increase attention to detail and provide more focus on those details. Our model engages key stakeholders before technology is thrust upon them to improve and can lower resistance, increase stakeholder buy-in and fully investigate business simplification and cost reduction opportunity in parallel with organizational change and development. This helps the retailer to take full advantage of any enabling technology. We call this, "Getting your FIM house in order." FIM requires cross functional methodologies that if taken serially will *arrive late* and can end up being *a dollar short*.

## Step 2:

### Understand FIM Data Needs

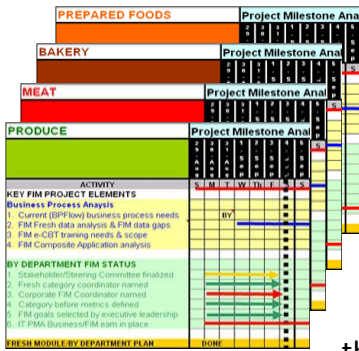


*Identify and understand how your data impacts your fresh business processes and technology requirements.* Enabling technology is driven by data. It is critical to ensure that this data is accurate because it has a direct consequence on your fresh operations, and affects food safety for your customers. Make sure that your FIM data accurately reflects the required FIM metrics, such as inventory on hand, sales volume, markdowns, spoilage, ingredient costs, overstocks and recipe bill of materials/cut content in addition to information which assists traceability. There is also a need to thoroughly understand the FIM requirement for "near real time," data and how this impacts data accuracy and interpretation.

An example of how data cycle times and accuracy impacts your profitability is seen when over production of fresh items results in unplanned markdowns to eliminate excess inventory. Systems that don't expose and clearly articulate the cause of excess inventory and use legacy batch data captured from sales that are not adjusted to account for these losses will perpetuate over buying, ordering and production. FIM best practices and production planning models require more real time data to ensure a more accurate production forecast of product needs. The timing of data is critical in FIM.

### Step 3:

## Phase FIM Enablement



Many retailers make the mistake of trying to implement too much technology at one time. The more successful retailers recognize that it is essential to phase implementation and build momentum to gain systems acceptance at headquarters first and then for operations. It is important to understand that FIM impacts the entire enterprise.

We recommend that retailers seek guidance with objective FIM outside experts to foster change and define a FIM plan to simplify the initial installation, support replication of best practices now (when you need them) and build a foundation and momentum for change success.

Every organization is different and a best plan can mean starting in a single department or introducing a single simple thread in a multi-threaded FIM plan that BSG suggests. For example, a phase may be re-inspecting every recipe. Accuracy of food safety data and aligning this work with GS1 bar code standard changes in a multi-threaded way is important. Discovery will expose that current recipes and emerging data structures need more rigorous synchronization. Also, this data is paramount to accurate forecasting. It must articulate accurate batch sizes to properly forecast a correct fresh mix and ensure rigorous food safety information for the shopper. In the past recipes offered guidelines and policies on batch sizes and stores produced based on observable needs. Now these recipes and production decisions must be very accurate because these processes are intertwined in FIM. Therefore a single thread may be achieving FIM recipe uniformity and accuracy while implementing a category to affect new standards of excellence.

### Step 4:

## Understand Customer Impact



Your customers rely upon you to provide fresh items with accurate product and ingredient information. A comprehensive food safety solution is not just a “nice to have,” it is critical to building (and maintaining) your trusted relation with your customers. For example, your FIM initiative should definitely fit in with *shopper wellness programs* that increase your marketing prowess and sustain your fresh store brand. FIM will increase your ability to beat competitors to market with modern FIM processes and innovative new meal deals and shopper fresh promotional schemas.

FIM will enable a better and more informed store worker and provide tools to help that worker increase their dialogue with the shopper. You will want to take advantage of FIM's ability to make sure your product labels are accurate and reflect source data and advanced food safety facts but also to suggest to shoppers best products for their nutrition and dietary concerns. Consideration should be given to enable store workers to be more informed and have answers to wellness questions. This ability can be provided by requiring recipes to become advisory to shoppers on fresh category ingredients. FIM is a great opportunity to promote family wellness with your brand and to up-sell shoppers. FIM rigors will help you do this well with potential immediate benefits.

## Step 5:

### Engage Store Associates



FIM is cross functional and integrates work efforts horizontally and vertically as well as from suppliers through the Enterprise to the stores. Many technology solutions are implemented using a *top down* implementation approach. This often results in a lack of *buy-in* from fresh category and store associates who contribute to an antagonistic work environment and can lead to unsuccessful and underperforming departments and stores in your FIM initiative.

A program steering committee, comprised of representation of end users across functional, administrative, technical and fresh categories can mitigate these circumstances. This committee will also control and manage ensuring departments impacted by FIM are read into the FIM strategy and that proper resources are allocated to the plan and actively engaged in the project and to be accountable to deliver their part in the FIM plan.

By making representative associates of contributing FIM players a key part of your decision making and implementation process, they become program champions and drive the change mechanisms to make your FIM project sustainable and generate faster and continuous return on investment.

## Step 6:

### Measure and Validate



*Issues are sure to arise during program implementation.* It is important to identify the program performance measures at the planning phase of your multi-threaded fresh item management initiative and include: store associate feedback, required data input, monitoring methodology, ROI metrics, training systems and post implementation management of the new business processes.

Too often, systems and their new processes are installed without sustainable performance success criteria and real agreement by all levels of management on business practice changes expected after installing technology.

A common complaint, often expressed by executive management, is that governing departments such as PMO, IE and IT develop ROI justifications for purchasing enabling technology that is fully vetted in the Lab and Pilot. However, once the purchase is made, the actual ROI is rarely validated and sustained and these entities go off to another project and continuity of the business change process is lost. At the onset of the FIM program, there needs to be a post implementation expectation and a system of training and follow through to achieve it. The BSG multi-threaded plan will continuously validate the actual business benefits and deliver accountability and transparency to maintain performance improvement and build associate confidence to achieve sustainable long-term ROI. *FIM is a permanent business change—not a one time project technology project.*

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#### **About the Authors**

Business Strategy Group is a consulting company comprised of general retail and grocery executives who each have more than 30 years of “real life” experience in retail operations, supply chain, merchandising, store optimization and technology enablement. Our Fresh Item Management practice is led by two grocery veterans who have served in FIM management roles for leading grocery chains. Our FIM clients have included a number of leading global supermarket chains.