Retail Optimization

February 2021

RP Webinar Series List

RP Kickoff Meeting

Deep Dive: Retail Optimization

Deep Dive: Price Book / SKVIs

Deep Dive: Incentive Program

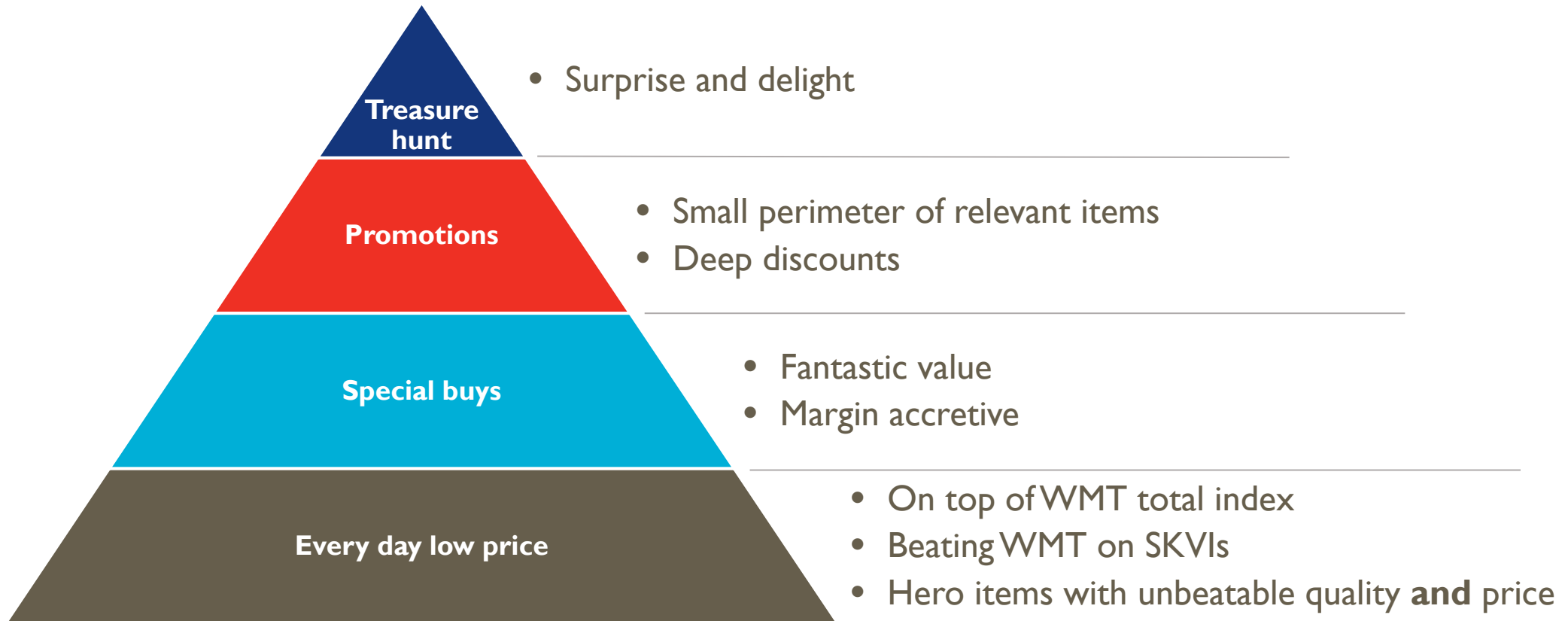Deep Dive: Transportation

Agenda

Retail
Optimization

- Goals of Retail Optimization

- Details on the Retail Optimization methodology

- STL pilot results

- Details on GIG calculator

- Q&A

EDLP will remain the foundation of our commercial strategy, supplemented by customer facing activities (EDLP+)

Retail Optimization

Treasure hunt
- Surprise and delight

Promotions
- Small perimeter of relevant items
- Deep discounts

Special buys
- Fantastic value
- Margin accretive

Every day low price
- On top of WMT total index
- Beating WMT on SKVIs
- Hero items with unbeatable quality **and** price

But there are issues with our current system – the purpose of this initiative is to address them

The Retail Optimization Program aims at generating incremental profitability and increasing competitiveness

Retail Optimization

What are the principles of our approach

How we bring it to life

Be priced right on the items that matter the most to our customers

> • Identify items that drive the most trips, and target higher level of competitiveness on those items

Simplify price checking and check against relevant competitors

> • Invest in bi-weekly price scrapes to Walmart, and leverage their pricing intelligence to stay competitive

Develop a structure that is simple to manage and supports continuous improvement

> • Reduce the complexity of the books: fewer inputs on key items, and a tail managed by best-in-class algorithms

Give Retail Partners final authority to set prices based on their local knowledge

> • Provide RPs with the ability to manage pricing and new advanced tools to help them make right decisions

Indexing to Walmart is an effective way to make sure we are competitive in the market

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Walmart is the #1 competitor for many of our stores

- Our customer consistently shops Walmart, and most of our stores are located within 15 miles of one

Walmart invests significantly in pricing intelligence to counter competition from discounters

- We have seen Walmart adjust their pricing and stay relevant to competitors like Aldi and Lidl

- By indexing against WMT prices, we can leverage their learnings to obtain the same results

Walmart pricing is widely available, and allows for quick and efficient scrapes

- All prices are available online, and we can efficiently use web scrapes to check on 1,000s of items

- We are more confident in the results because we have reduced the risk of human error

Does this mean we stop caring about our competitiveness vs. Aldi and regional competitors?

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No.

- We will continue to check other competitors and measure ourselves against them

- As we redesign our category assortments, we are very focused on the price points Aldi achieves on key items

- The SKVI program will continue to support RPs based on the most aggressive relevant competitor

- If we see separation between Walmart and other competitors, we will address this

- RPs will have final say on retail price; we are counting on you to enhance our recommendations based on your local market knowledge

A tiering approach allows us to balance competitiveness & profitability, while pricing right on items that matter most

Retail Optimization

SKVIs	Tier 1	Tier 2	No-Tier / Tail
Managed through the SKVI program	~200 items	~400 items	~1,600 items
	15% of Sales[1]	16% of Sales[1]	33% of Sales[1]
	100 Target Index to WMT	**105** Target Index to WMT	**100-130** Index to WMT
	Managed through bi-weekly competitive price scrapes	Managed through bi-weekly competitive price scrapes	Optimized within guardrails by the Revionics® algorithm

Top Ranked items based on Sales $, Sales Units, and Basket Penetration

Be competitive where it matters the most…   **…and balance RP profitability**

Tiers were determined by ranking items using a weighted average of store sales, units sold, and basket penetration

Retail Optimization

Item		Annual Store Sales (M)	Annual Units Sold (M)	Annual # of Baskets (M)
	Tier 1			
28815	Crystal2O 24 Pack	30.1	11.9	7.5
10362	Portside Tuna	8.6	11.4	2.6
16090	Super Sweet Whole Kernel Corn	5.6	10.9	3.2
10620	Spaghetti	3.5	3.6	2.1
	Tier 2			
44892	Miracle Whip	4.0	1.0	1.0
16020	All Purpose Flour	2.9	1.7	1.4
11540	Libby's Chunk Pineapple	1.6	1.4	0.9
17700	Chili	1.4	1.1	0.6
	No Tier			
30640	Pink Salmon	2.7	0.9	0.5
13462	Hershey Milk Chocolate	1.9	0.4	0.3
34202	Applesauce	0.8	0.5	0.4
29255	Oyster Crackers	0.6	0.6	0.5

We see positive results in STL by optimizing our retail prices, getting closer to competition on most important items

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Pricing Tier	Pre Test Index to WMT	Post Test Index to WMT	% of Sales
SKVI	113	100	5.7%
Tier 1	105	100	13.1%
Tier 2	109	106	13.3%
Non-Tier	108	109	33.8%
Total	**108**	**105**	**65.9%**

Metric	Post Test vs Pre (Y/Y)
Units	+900 bps
Sales	+350 bps
Customer Count	+470 bps
Units per Transaction	+440 bps

Summary of Performance Data

- After a successful fourteen-week test, we have maintained an improved index to WMT by 3 points

- We implemented the new retail price program in all stores

- The "Post Test" period is the 15 weeks since the test ended

- St. Louis comps are +8.6%

Our experience confirms what we all know – changing customers' price perceptions takes time and commitment

We are piloting a GIG calculator and will incorporate feedback into a web-based tool targeted for March rollout

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The GIG calculator is designed to support Retail Partners with pricing decisions, including when to deviate from our recommendations

- Provide RPs with all relevant, item-store level data in a single place – SRP, GIG%, WH Cost, historical movement
- Give RPs an intuitive tool to create different pricing scenarios and assess the impact on units and GIG

Version 1.0 has been tested by Retail Partners and will be enhanced over time

- Planned future enhancements include functionality such as ability to line price

Selected Item Details

Item #	10022 - ASPARAGUS WHOLE SPEARS
department	001 - Grocery
class	004 - Vegetables
subclass	010 - Vegetables Mainstream
WMT Price	$ 2.12
Price Elasticity	Low

	Current	New Price
Unit SRP	$ 1.99	$ 2.19
Unit COGS	$ 1.27	
Quantity	2,088	

Save Item to Price Book
Reset Item SRP
Reset Price Book

Item Totals	Baseline	Current Wholesale Program			Simulation		
			vs. BL			vs. Current WS Program	
Retail Price	$ 2.24	$ 1.99	$ (0.25)	-11.2%	$ 2.19	$ 0.20	10.1%
Units Sold	2,088	2,088	0	0.0%	1,927	-161	-7.7%
Total $ Sales	$ 4,539	$ 4,155	$ (384)	-8.5%	$ 4,219.28	$ 64.16	1.5%
Avg COGS / Unit	$1.73	$1.27	-$0.46	-26.8%	$1.27	$0.00	0.0%
Total GIG $	$ 1,019	$ 1,503	$ 484	47.5%	$ 1,772.48	$ 269.12	17.9%
GIG %	*22.5%*	*36.2%*			*42.0%*		

Store Totals	Baseline	Current Wholesale Program			Simulation		
			vs. BL			vs. Current WS Program	
Total Retail Sales	$ 15,268,195	$ 15,268,195	$ -	0.0%	$ 15,766,842	$ 498,647	3.3%
Total Net COGS	$ 11,686,489	$ 11,743,678	$ 57,189	0.5%	$ 11,801,439	$ 57,761	0.5%
Total GIG $	$ 3,581,707	$ 3,524,517	$ (57,189)	-1.6%	$ 3,965,403	$ 440,886	12.5%

GIG% by Department	Baseline	Current Wholesale Program			Simulation		
			vs. BL			vs. Current WS Program	
SKVI	35.8%	$ 109,366	15.4%	-2041 bps	$ 181,327	22.1%	673 bps
001 - Grocery	19.5%	$ 923,865	17.9%	-156 bps	$ 1,067,753	20.1%	221 bps
002 - Frozen	20.6%	$ 495,863	21.9%	136 bps	$ 546,229	23.6%	168 bps
003 - Cooler	20.6%	$ 436,527	19.5%	-112 bps	$ 611,419	25.2%	568 bps
Subtotal (G/F/C)	21.3%	$ 1,965,621	19.0%	-232 bps	$ 2,406,727	22.2%	322 bps

RP Totals - Freeman Family Enterp	Baseline	Current Wholesale Program			Simulation		
			vs. BL			vs. Current WS Program	
Retail Sales	$ 76,924,728	$ 76,924,728	$ -	0.0%	$ 79,460,459	$ 2,535,730	3.3%
Net COGS	$ 59,146,066	$ 59,307,233	$ 161,167	0.3%	$ 59,621,527	$ 314,294	0.5%
RP - GIG $	$ 17,778,662	$ 17,617,495	$ (161,167)	-0.9%	$ 19,838,931	$ 2,221,436	12.6%

save a lot

Q&A

Retail Optimization

- Please keep your line muted unless asking a question

- Option to raise hand to ask a question and we will call on you
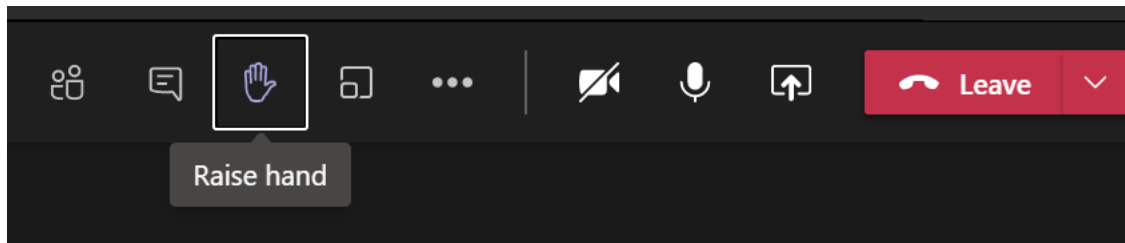
- Option to write question in the conversation window