

Milking Dairy for All it's Worth

Department reinvention, expansion can boost overall sales

Dairy accounts for 19 percent of an average supermarket's profit while taking up just 3 percent of store space, according to the Willard Bishop Store SuperStudy 2009. It generates more than 2.6 times return on space than produce and 6.2 times higher return on space than grocery in general. With performance like that, it's no surprise that many retailers are looking for ways to reinvent their dairy departments.

Dairy Management (DMI), which supports the Innovation Center for U.S. Dairy, recently released a 24-page guide to help retailers reinvent their dairy departments. The Dairy Department Reinvention Activation Guide is the result of more than three years of research by DMI, Kraft Foods and Dannon. Since 2006, the coalition analyzed 343,000 shopping trips, audited 22,000 retail grocery stores and spoke with 2,500 consumers. With milk penetrating 96 percent of U.S. households and acting as a trip trigger that often leads consumers to the store, putting a focus on dairy can be a great way to increase profitability.

Rebecca MacKay, vice president of sales and marketing for DMI, says extensive store audits and customer interviews helped the coalition develop a set of best practices. Putting those practices into play in tests at more than a thousand stores nationwide, DMI was able to incorporate shopper insights into a concept that would work in the retail environment.

"The beauty of the guide is that it is generic enough that it can be adapted to any retailer's go-to-market strategy and any retailer's store format," MacKay says. "It can help them leverage their dairy department."

Aligning with shopper needs drives store loyalty, which increases shopper perceptions and can lead to increased sales. Pre-reinvention and post-reinvention surveys showed dramatic increases in shopper perception of things such as layout and odor. Average items purchased also increased from 1.4 to 1.8 per shopper transaction in reinvented stores.

At a time when retailers are trying to squeeze every last ounce of profitability from their floors, relatively minor changes in a dairy department can have a big impact, especially for large chains. The coalition's research found that removing underperforming SKUs and adding 24 feet of space to the dairy department can increase net profit by as much as \$821 per week. That translates to an additional \$43,000 in net profit annually.

Listening to the customer

“Our recommendation is that space for dairy in general should be increased and is already underutilized,” MacKay says. “You can gain a lot from adding just a little more space.”

The best practices outlined in the Dairy Department Reinvention Activation Guide address the feedback from consumers. Comments included that the dairy department was traditionally not an emotional engagement, that they often had difficulty finding items, that they often felt rushed and usually bought the same things week after week. Shoppers’ wishes include making the dairy department easier to shop, personalizing the engagement, leveraging more meaningful merchandising and fostering interaction.

Among the eight best practices:

- Establishing a dairy department — not just another aisle — by giving dairy an identifiable perimeter space, and update the department to give it a contemporary look and feel and to make the department easier to shop by growing space to reduce congestion. “You can give dairy an identifiable space of its own with color, navigational signage, floor treatments or even video or an interactive kiosk,” MacKay says.
- Personalize the engagement by informing shoppers about the benefits and usage occasions of the various dairy products to build stronger connections to health and wellness. “It gives the retailer the opportunity to become a trusted source of information,” MacKay says.
- Leverage more meaningful merchandising by creating solution-based interest areas and segmenting the dairy space into smaller, easily-discernible shopping areas. This includes creating special interest sections within the categories. One such example during the tests included a snacking section within the cheese area that outperformed the entire category and saw double-digit growth.

Publix operates more than 1,000 supermarkets in Florida, Georgia, South Carolina, Alabama and Tennessee and had more than \$24 billion in retail sales in 2009. Director of media and community relations Maria Brous says the dairy department is one of the chain’s largest categories in terms of sales.

Like many retailers, Publix is often reassessing and reevaluating the needs and wants of consumers in its dairy department. In general, the chain has not allocated more space to dairy, and the decision to add new items is weighed on factors like the supplier’s marketing plan to drive consumption and if the product will help increase baseline sales in the category without cannibalizing existing sales. It has highlighted Chobani Greek yogurt as an item that has provided significant growth over the past year, Brous says.

Conveying stronger freshness cues was another important best practice. Customers react so strongly to negative perceptions in a dairy department, McKay says, that one wrong move with a spoiled product could lose a customer forever. Brous agrees. “The importance of fresh dairy products to customers is evident in their shopping practices,” she says. “Customers tend to observe the expiration or ‘best if used by dates’ before making their selection.”

Two final best practices were designed to help retailers move from a passive to an active shopping experience in their departments. They include fostering interaction and engagement by changing the dairy space from linear to 3-dimensional and inspiring shoppers by updating messaging solutions to maintain shopper interest. As an example of the latter, MacKay points to produce, which over the past decade has gone from a single aisle in most stores to complex and interactive layouts that encourage shoppers to spend more time.

By implementing some or all of the principles outlined in the Dairy Department Reinvention Activation Guide, test stores saw an average increase of 1.6 percent increase in overall sales and an average unit increase of 2.2 percent.