

The Future: Dairy aisle reinvention could increase overall department sales by \$1 billion

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Improving 'shopper experience' can lead to greater dairy sales volume.

Tomorrow's dairy department was on display at the National Grocers Association 2010 Annual Convention and Supermarket Synergy Showcase in Las Vegas, offering a glimpse at how a reimagined dairy aisle could increase department sales by as much as \$1 billion. The Innovation Center for U.S. Dairy and Dairy Management Inc. (DMI) booth provided a virtual walk through the "Dairy Department of the Future" via a video presentation, showcasing results of a three-year dairy farmer-funded project that is helping reshape the future of the retail dairy aisle.

The Dairy Department of the Future research shows a reinvented dairy aisle can increase dollar sales by 1.6% and dairy unit sales by 2%-3%. The dairy department generates superior returns on its space compared with other departments, generating 19% of store profit from 3% of store space. By optimizing space and creating a more shopper-oriented – rather than operations-driven – department, retailers can maximize new product potential, improve cross-merchandising opportunities and drive significant growth in sales and profits.

"The dairy industry continually explores innovative ways to increase demand for nutrient-rich dairy products," said Tom Gallagher, CEO of the Innovation Center for U.S. Dairy and DMI.

Starting in 2006, a coalition with The Dannon Company and Kraft Foods analyzed 343,000 shopping trips, audited 22,000 retail grocery stores, spoke with 2,500 consumers, and implemented category and total dairy aisle reinvention efforts in more than 1,000 stores nationwide. The testing and research showed shoppers spend more time in a reinvented dairy department, enjoy the shopping experience and purchase more items overall.

Dairy a strong draw

Dairy offers several strengths that could be optimized by redesigning the dairy aisle:

1) product innovation. Dairy dramatically outpaces other categories in offering product innovations, introducing new products at a compound average growth rate of 10.5% since 2004, compared to 6.2% for produce and 1.5% for food and beverages. The number of new products introduced in 2008 was 1.7 times more than 2004.

2) high-value products. One of the most profitable areas per unit of space in the store, dairy also has one of the fastest turnover rates. Expanded space gives more area for high-value dairy items, reduces the chance of stocking shortfalls that would hurt sales, cuts labor costs for restocking, and increases the rate of return on capital investment in inventory.

3) quick trips. Convenience is becoming more critical for shoppers, and supermarkets are losing out to more convenient outlets. Nearly one in two trips to the supermarket are considered “quick trips,” in which the shopper picks up 1-5 items at a total cost of less than \$40. Forty percent of those trips include at least one dairy item; and about 20% include the purchase of fluid milk.

Shopper-focused design principles

The research outlines design principles and best practices to elevate the dairy department’s role within the store:

- **Contemporize:** Changing shopper perceptions from “old fashioned” to modern, relevant, fresh and new.
- **Dimensionalize:** Slowing down shoppers by creating a three-dimensional space with cross-merchandising vehicles that answer lifestyle and usage needs.
- **Rationalize:** Engaging shoppers by bringing clarity and organization to different segments.
- **Invigorate:** Inspiring shoppers by communicating the value, benefits and usage occasions of dairy products.

Shoppers described their experiences in the reinvented dairy department more favorably than before the enhancements. They liked how the new department was presented, believed the changes made shopping easier, and indicated the new look created a more welcoming experience.

FYI

- **Tom Gallagher** is CEO of Dairy Management Inc. and the **Innovation Center for U.S. Dairy**. For more information, e-mail: innovationcenter@usdairy.com or visit USDairy.com.