



# Dairy • Deli • Bakery

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# THE SHELBY REPORT of the Southwest

JUNE 2010

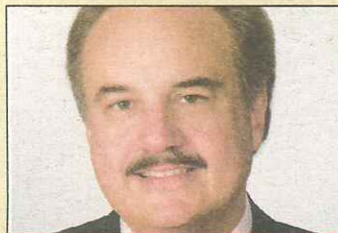
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## THE INDUSTRY SPEAKS:

### Savvy Shoppers Pose Challenge

The food industry is "beginning to see hints of a mega-trend" that began as the recession hit and has resulted in a "savvier shopper" whose expectations are rapidly changing, said Leslie G. Sarasin, president and CEO of the Food Marketing Institute (FMI), during her "Speaks 2010" speech at FMI 2010 in Las Vegas on May 11. "It probably means they'll feel less



FMI has changed its brand logo tagline to reflect the contribution of the food industry: "Feeding Families and Enriching Lives." Leslie Sarasin, president and CEO, made the announcement at FMI 2010.

loyalty; it certainly means they will seek more perfection," she said.

Even as Americans begin to open their wallets, they are cautious and want value for their money and their families, she said. They arrive at the grocery store prepared to shop. They are motivated by simplicity, safe food, nutrition, health and wellness, environmentally sound practices and—most importantly—price. According to FMI's Consumer Trends Survey, 75 percent of respondents said they decide where to shop based on low prices.

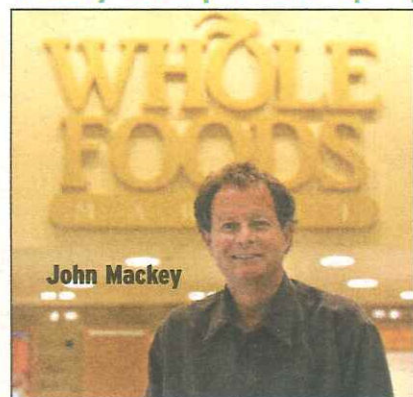
Eating at home is part of the new normal, with 96 percent of shoppers preparing as many or more meals at home than before the recession; 85 percent make home-cooked meals more than three times a week, up seven points since before the recession.

The number of younger customers—Generation X and Generation Y—increased 64 percent from a year ago. Sarasin said the food industry must "look closely

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## Whole Foods 2Q Profits More Than Double vs. 2009

Weekly sales per store up 9 percent



John Mackey

Whole Foods Market reported that its second quarter profits more than doubled, as it earned \$67.5 million in the 12-week quarter that ended April 11, vs. \$27.3 million in the same quarter last year. Sales increased to \$2.1 billion, a jump of 13 percent.

"We are very pleased to report our second quarter results, which exceeded our expectations on the top and bottom line and are the best we have reported in several years," said John Mackey, company co-founder, CEO and director. "As the economy and consumer

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and CEO, passed the title of president and chief strategy officer to G. Allen Mills, a 41-year Reasor's veteran. Mills previously served as store manager, district manager, VP of operations, and SVP of operations and COO.

"Allen has seen the company grow from the single store operation he started in with my father in 1969 to our current chain of 15 stores," Reasor said. "Allen has had his fingerprints on virtually all the plans of the company as it grew from the original small store in Tahlequah to



G. Allen Mills



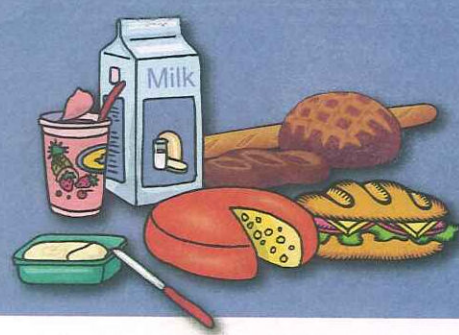
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## Mills Named President of REASOR'S FOODS

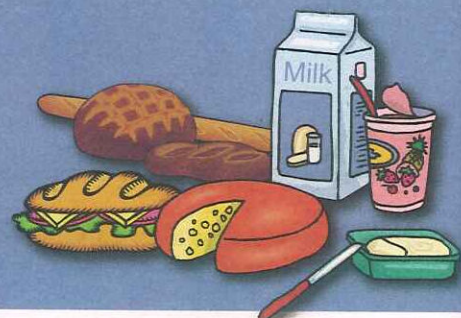
For the first time in company history, someone with a name other than Reasor will hold the title of president for the Tahlequah, Okla.-based chain. On May 7, Jeff Reasor, who will remain chairman



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## Better Dairy Department Configuration Means More Profits

A reimagined dairy aisle could increase dairy department sales by as much as \$1 billion while at the same time creating a more positive shopping experience.

Those were a couple of the findings from a three-year dairy farmer-funded project that sought to discover how best to configure the Dairy Department of the Future.

The Dairy Department of the Future is a project of the Innovation Center for U.S. Dairy and Dairy Management Inc.™ (DMI). DMI, which supports and staffs the Innovation Center, also manages the national dairy checkoff program on behalf of the nation's dairy farmers. The Dannon Co. and Kraft Foods also lent their support to the Dairy Department of the Future project.

The research also showed that a reworked dairy aisle can increase dollar sales by 1.6 percent and dairy unit sales by 2 percent to 3 percent. The dairy department generates superior returns on its space compared with other departments—generating 19 percent of store profit from 3 percent of store space. Starting in 2006, the coalition 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.

Scott Dissinger, SVP of sales and marketing for DMI, spoke to Shelby Report editor Lorrie Griffith about creating a more dynamic dairy department.



Scott Dissinger, Dairy Management Inc.

**Q: What are some of the challenges facing the dairy department these days?**

I think the No. 1 issue we face is the fact that many other categories have really been infringing upon dairy's heritage. At the core, dairy really represents "health" and "good for you." We use the phrase—and we

mean it sincerely because it's based in fact—"Nature's most naturally nutrient-rich food." It has nine essential nutrients, obviously the most well known is calcium, which is terrific for building strong bones. But it's not just the calcium; it's the phosphorus, the potassium, the other

nutrients that allow that bio-absorbability.

The concern we have as we go forward is we see some products trying to compare themselves to milk. You've got soy, which makes the comparison visually and from a nutrient standpoint. Juices have certainly done a lot of fortification. Water has a natural "health halo," and they've even fortified some of the bottled waters. Even some snacks and food products are attempting to steal our protein and calcium stories, so there's a terrific opportunity here for us to regain some of that story and messaging. That really is a huge part of why we developed the dairy department reinvention project.

The overall halo that milk brings needs to be brought into the store where's that sort of that "moment of truth" when the shopper's going to make a purchase.

**Q: You're saying the retailer needs to concentrate on grabbing their attention and communicating with shoppers as they're going by the case?**

Yes, and I think it's at two levels. I think there's the overall higher strategic approach of the way you position the entire dairy department within that retail environment. There's a huge opportunity to just raise the engagement level of the entire dairy department.

Then when you come down to a more tactical level specific to each category, there's a real opportunity to communicate benefit. I think that's one of the things that we've seen in a lot of work, not just on the dairy reinvention project but as we've audited and looked at packaging and a lot of the messaging that's out there—there's a greater opportunity to communicate benefit to the shopper, both on packaging and at the shelf.

**Q: How about playing up the vitamin D angle? Milk is usually fortified with vitamin D and that's been in the news related to health lately.**

We refer to it as "liquid sunshine," and of course that's another terrific benefit of milk, and I think our processors have done a terrific job not only in communicating the value of vitamin D, but folks like Hood, with their Simply Smart line have a product that can be a lowfat item but still has all the nutrients and the great taste. You have Lactaid, which helps those with lactose intolerance. Shamrock Farms has done a terrific job with the product that focuses on the refuel benefit of chocolate milk (Rockin' Refuel).

That health halo that milk brings to the overall department is something you should use to communicate and create more consumer engagement in the dairy department. Don't let them make it this kind of quick stroll through the department and just grab

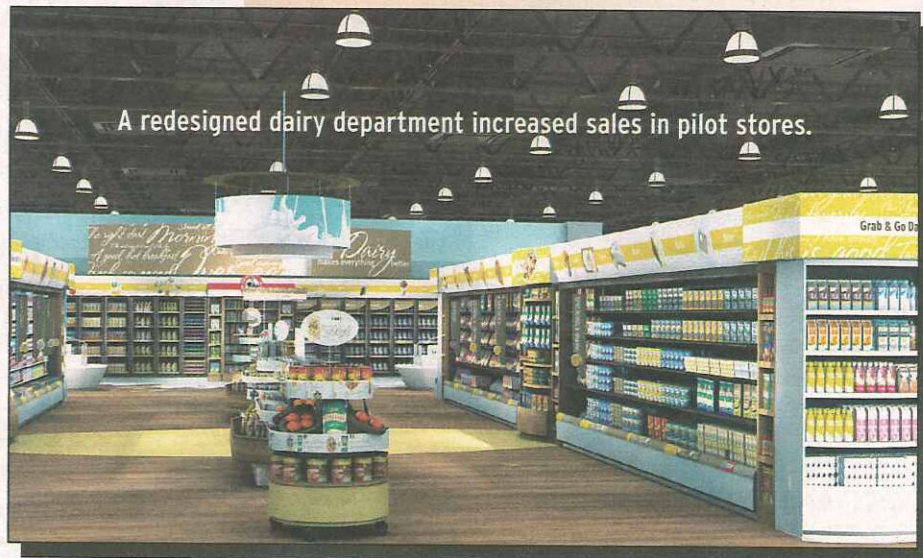
The Dairy Department of the Future research outlines four design principles and eight best practices that elevate the role of the dairy department within the store and improve its positioning with shoppers. They serve as actionable options vs. one redesign solution, allowing retailers to adapt them to their unique needs, including their format, décor, layout and go-to-market strategy.

### Four design principles:

- **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.

### Eight best practices:

- Make dairy a department, not just an aisle
- Make it easier to shop the department—enhance shopability, minimize clutter
- Encourage shopper purchases with kiosks, meal solutions, communication of product benefits
- Leverage health & wellness
- More meaningful merchandising—reorganize categories based on how shoppers "interact" with them
- Provide stronger freshness cues through freshness guarantees, proper lighting, a fresh look and smell and inviting signage
- Make the dairy department a 3-D experience so shoppers have to do some browsing, not just cruise through
- Highlight new products in order to inspire shoppers to buy them; offer usage cues.



### EXPERTS ANSWER YOGURT, MILK QUESTIONS

From yogurt-based beverages to Greek yogurt to probiotics to kids' products, there seems to be a lot of innovation in this dairy category. Health would seem to be the main driver of this innovation; are there other factors?

There are many factors why people chose yogurt. When selecting snacks, yogurt is a better-for-you option. When selecting snacks for themselves and their children, adults are attracted to the nutritional benefits of yogurt. The inherent benefits of low- and non-fat dairy, including the calcium, protein, essential amino acids and vitamins, are highly valued. Another health-related reason is the functional benefits that some products like Activia provide for people with slow transit.

—Michael J. Neuwirth  
Senior Director of Public Relations  
The Dannon Company & Danone Waters of America

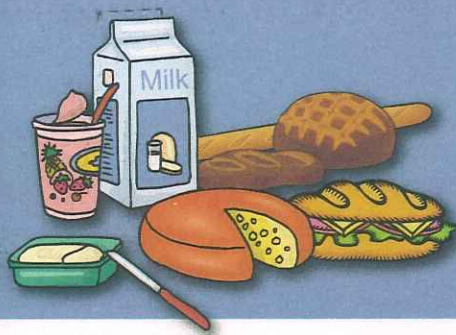
Price seems to be a major factor in shoppers' milk choices with the economy in the state it's in. Has organic milk been able to gain any traction in this economy? Are consumers looking for the "no rBST" notation on packages? How about fat content? Are we moving down toward 1% and skim milk due to obesity concerns?

Yes, price has always been a major factor in shoppers' milk choices, and we're seeing that even more with today's economy. The growth of the premium-priced, organic milk segment has leveled off, as one would expect.

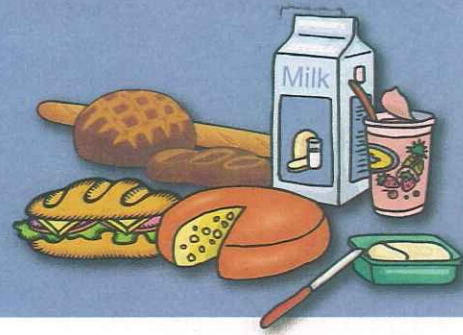
Regarding rbST, milk processors have responded to requests from a small but vocal segment of consumers for milk from cows that haven't been treated with rbST. Some milk companies label their milk to call that out and some don't, but by and large, it's not a market differentiator for fluid milk these days. For information on rbST, refer to the National Dairy Council's website: [www.nationaldairycouncil.org/SiteCollectionDocuments/footer/FAQ/food\\_safety/MilkandHormonesFactSheetAugust2008.pdf](http://www.nationaldairycouncil.org/SiteCollectionDocuments/footer/FAQ/food_safety/MilkandHormonesFactSheetAugust2008.pdf).

The dairy case is a key destination for consumers pursuing a healthy, active lifestyle. Yes, the decades-long trend toward lower-fat milks continues. An exciting new development in the dairy case is that processors have found a way to provide all the nutritional benefits and the rich, creamy taste of regular milk in skim and reduced-fat varieties.

—Scott Dissinger  
Senior Vice President, Sales and Marketing  
Dairy Management Inc.



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because no two stores are the same, every account has its own go-to-market strategy. So we came up with some best practices regardless of your footprint or format and regardless of your go-to-market strategy that you could employ to raise the dairy's presence in your stores. (See box on previous page.)

When you look at segmentation and providing navigational cues to the shopper, you can do that in a number of ways. You can do it with the signage and/or you can do it with color, with the architecture and configuration of the equipment, or any combination thereof.

It's not so much the specificity of the equipment and the colors as much as leveraging those tactics to provide navigation and merchandising and clarity for the shopper when they're going through the department.

## **Q: What advice would you give retailers in setting up their dairy departments?**

We've done a lot of work around what retailers would refer to as "flow and adjacencies." We have some work that says a great way to lead off the department is with milk because that's what's drawing folks in. If you do a good job of drawing folks in with the milk category—making it an engaging environment and you have the communication—you pull folks through. We know that cheese is a great anchor department. If you think about a shopping mall, you have those anchors that are the major department stores, and that's kind of the role that milk, cheese and yogurt play.

We've also done a significant amount of work in terms of increasing availability of dairy throughout the store in terms of meal solutions, snacks or grab-and-go solutions.

Certainly, having a nice grab-and-go case with milk up front is an incremental sale; single-serves in the bakery department next to the bagels and the doughnuts raises sales. String cheese and yogurt in those grab-and-go deli sections shows volume increases.

So milk and cheese and yogurt, just those key dairy categories, because they have such high household penetration, are great ways to drive incremental sales.

Winn-Dixie has done a terrific job on that. I was just at a conference, and Rob Mould, who is vice president over at Winn-Dixie, gave a great presentation on putting together meal solutions in the dairy and frozen departments, putting together all the key dairy components or frozen components to map out meal solutions, so there are folks who are pushing the envelope there and really coming up with creative ideas that create solutions for the consumer and build their sales.

## **Q: You mentioned there are a lot of different milk products and then, of course, there's yogurt you drink, yogurt you eat, yogurt in sleeves, all those different things. I guess it's a tough job probably to figure out what you really need to carry.**

Yes, it is. I think that the brands have done a terrific job in identifying need states, shopper trip missions, and meal solution ideas that meet consumer needs and that consumers are looking for. The problem has become is there enough space in the store to take on those new

items? And once I put it on the shelf, can the shopper find it? That's really what we've tried to do is give folks ideas on A) as you're remodeling and building new stores, think of the future and open up and give more space to the dairy department and B) provide those navigational tools. You might want to have a special call out—maybe once a quarter or once a month, whatever works for that particular retailer—new items.

## **Q: So a lot of people make their planned purchases but then they're not hanging around to make the impulse-type purchases in dairy?**

They just need to pick up one more item. If you could do that with every shopper in the store, that's huge.

The use of sampling is sometimes undervalued, but I think the use of technology, be it ways to distribute recipes or coupons, or communicate benefits or a stand-alone kiosk.

We were seeing folks moving more that direction of how to employ technology as they open and build new stores.

## **Q: Your job is to communicate to the retailers what an opportunity they have to increase sales and to make it easier for the shopper.**

Absolutely. Working with Kraft and Dannon, the three of us came together to take a category approach. How can we grow the category? And when that happens, everybody wins. All three of our organizations now are in the process of communicating to the industry. Any one of us, or all of us, in tandem, is willing to sit down with any retailer at any time and share our learnings.

*(The Dairy Department of the Future will be on display at the FMI Show in Las Vegas, May 10-13.)*