

Alabama Grocer

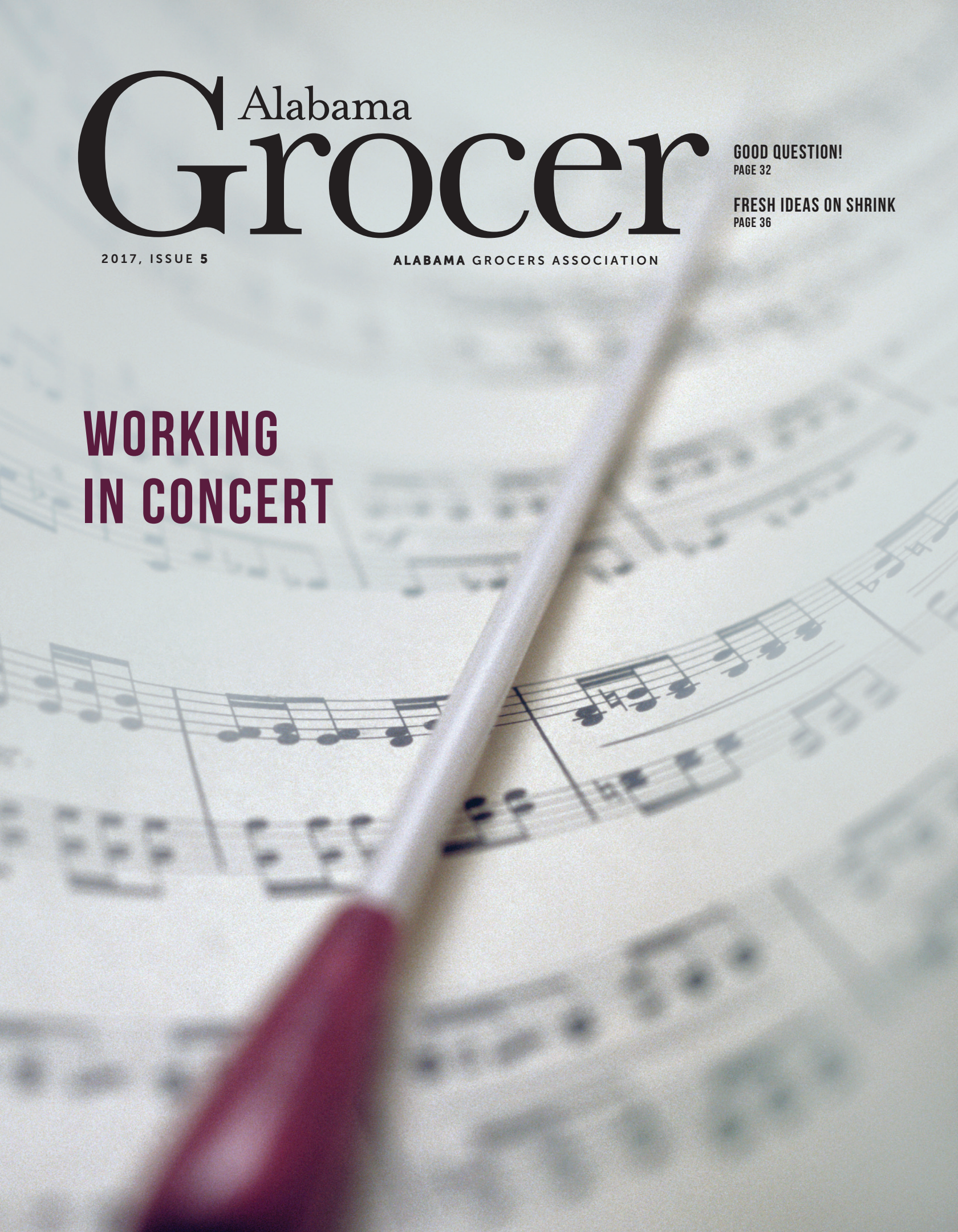
2017, ISSUE 5

ALABAMA GROCERS ASSOCIATION

GOOD QUESTION!
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IN CONCERT**



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Associated Grocers of the South, Inc.

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Billy Leverett
Vice President Of Sales
205-808-4821



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FEATURES



Working “In Concert”

Companies that are not investing in their future will be short-lived. Now more than ever, organizations need to work “in concert” within and outside of their organizations to drive growth.



Good Question!

It could be a “game changer” or a “massive disruption” and even “cataclysmic.” But when industry pundits are asked about the overall impact of Amazon’s acquisition of Whole Foods, the



Fresh Ideas on Perishable Shrink

There is an acceptable and necessary level of perishable shrink but there are proper limits. In the second of three articles on loss prevention, industry expert Larry Miller focuses on perishable shrink.

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CHAIRMAN'S MESSAGE

MEET YOUR NEW CHAIRMAN



FRANK D'AMICO, III

BTC WHOLESALE DISTRIBUTORS
AGA CHAIRMAN OF THE BOARD

AS COOLER WEATHER USHERS INTO OUR STATE, SO DO SOME CHANGES WITHIN YOUR ASSOCIATION.

As way of introductions, I am Frank D'Amico, III, President of BTC Wholesale Distributors and your new Alabama Grocers Association Chairman.

BTC Wholesale Distributors is a family owned business that started in 1927. We are a wholesale distributor which services grocery stores, convenience stores and drug stores in five states, Alabama, Florida, Georgia, Mississippi and Tennessee. We provide items such as cigarettes, candy, tobacco, groceries, snacks, health and beauty care, a wide variety of convenience items.. The company is headquartered in Shelby County and has 110 employees.

During my 38 years with the company I have worked in many positions including Sales, Sales Manager, Vice President of Sales, Executive Vice President and now President.

My sons are now in the business and make the fourth generation to work at BTC Wholesale Distributors. I love the grocery industry and look forward to the challenge of being Chairman of this prestigious Association.

Next month your new Board of Directors will be meeting to come up with our two-year strategic plan. This will serve as our guide as we work towards improving your association.

We are blessed to have a board that is committed to doing what is best for the Association and our Industry. If you have any questions or concerns, please know you can contact me via email at frankdamicoiii@btcwholesale.com.

I would like to take a minute to welcome our new AGA Board Members, Naseem Ajlouny, Owner of Buy Lo Quality Foods; Melanie LeBlanc, Category Manager for Anheuser-Busch; Mike Oakley,

Governmental and Corporate Affairs for Alabama Power; and Jimmy Wright, President of Wright's Market. We are excited to have these new additions and look forward to working with them.

With a very well attended convention behind us, we still have a couple Association events through the end of the year.

The Fall Golf Outing will be on October 19th at Inverness Country Club. This will be a one flight golf outing which will tee off at 8:30am. We also have our annual PAC Fundraiser the Alabama's Food Industry Finest Luncheon on November 2 at 10 am at The Club.

Keynote speaker will be Jeremiah Castille, former Alabama Defensive Back. We will also have our Legislative Panel with Senator Del Marsh, the President Pro Tempore and Representative Mac McCutcheon, Speaker of the House.

I hope to see you at these upcoming events. Without your support of our Association, we would not be the voice of the grocery industry in Alabama.

Again, thank you for the electing me as your Chairman and I look forward to serving you for the next two years.

“WITHOUT YOUR SUPPORT OF OUR ASSOCIATION, WE WOULD NOT BE THE VOICE OF THE GROCERY INDUSTRY IN ALABAMA.”

COUNTRY DELITE FARMS



SAVED FROM THE WASTE
REDUCED FAT MILK

Nutrition Facts	
Per 1/2 Gallon (1.89L)	
Total Fat	10g
Cholesterol	100mg
Sodium	100mg
Total Sugar	10g
Total Protein	10g

SAVED FROM THE WASTE
WHOLE MILK

Nutrition Facts	
Per 1/2 Gallon (1.89L)	
Total Fat	15g
Cholesterol	100mg
Sodium	100mg
Total Sugar	10g
Total Protein	10g

SAVED FROM THE WASTE
WHOLE MILK

Nutrition Facts	
Per 1/2 Gallon (1.89L)	
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PRESIDENT'S MESSAGE

A LOOK INTO AGA 4TH QUARTER



ELLIE SMOTHERMAN TAYLOR
PRESIDENT
ALABAMA GROCERS ASSOCIATION

AS WE APPROACH THE 4TH QUARTER OF THE YEAR, THERE ARE ALWAYS SPECIFIC QUESTIONS WE GET ASKED EACH AND EVERY YEAR.

I thought this would be a great time to address those questions and concerns as we look towards 2018.

Did you know that we provide an entire page on our website for Emergency and Disaster Information? The link is <https://alabamagrocers.org/emergency-information/>.

It includes Alabama links for agencies like the Alabama Emergency Management Agency, a link to the listing of all county EMA agencies, Ready Alabama, Ready Business Alabama, Health Emergency Preparedness Alabama, Alabama Department of Public Safety, Alabama Department of Homeland Security, FEMA, Federal Disaster Relief, USDA, National Hurricane Center, NOAA, etc.

We will always send out updates in the event of natural disasters like this year's Hurricane's Harvey and Irma but this site is also very helpful. We will also add links to this site when the Governor Issues Emergency Declarations or when SNAP or WIC make changes as well. Email, Facebook and Twitter are also utilized

for our Association as ways to get out the word to our members.

October is the time of year when the Alabama WIC Department renews its contracts and makes changes every other year to the Alabama WIC food package. These take place on October 1 and will be effective for a two-year period.

Modifications to your cash register systems may be required and must be done by October 1st. Please remember that WIC recipients get manual food instruments for a three-month period.

You will still be receiving instruments for the old package through the end of the year as well as new ones starting in October. Your systems must be able to take both for this three-month period.

These changes are detailed in the new Alabama WIC approved Foods Brochure and the Alabama WIC Vendor Procedure Handbook. Your store representative should receive these documents at vendor training. One copy per register will be provided at the upcoming face-to-face contract renewal vendor training.

Noted changes to the package include shredded cheese, combinations of tuna/pink salmon, whole wheat hamburger and hot dog buns, mixed variety infant fruits and vegetables, addition of 11-ounce cereal, and select flavors of yogurt. Buttermilk is no longer approved.

Minimum stock requirements will also change. Information for vendors can be found on Alabama WIC's website at <http://alabamapublichealth.gov/wic/vendors.html>

I know everyone is fully informed on tastings by this point but one last reminder that I continue to get questions about is the question of whether you need to convert an on/off license to an off-premise license to do tastings.

The answer is that if you do not want to be subject to the current on-premise regulations, including an area no smaller than 500 square feet solely for service and consumption and tables and seating to accommodate no less than 16 persons within the designated on-premises consumption area just for tastings, you will need to convert your on/off premise license to an off-premise license. ABC Board Administrative Code Chapter 20-x-6-.02.

For those retailers holding an on/off premise license, solely for the purpose of

“WE ENCOURAGE YOU TO SPREAD THE NEWS ABOUT THE AGEF SCHOLARSHIP PROGRAM TO ALL YOUR EMPLOYEES THAT ARE EITHER IN COLLEGE OR HAVE CHILDREN IN COLLEGE.”

conducting tastings, here are the steps to change your license to an off-premise license -

- Renew your license as normal.
- If you want to change your license type(s) from an On/Off premise license to an Off Premise only license, you will need to submit a request in writing to McKenzie.Reed@abc.alabama.gov.
- In the request explain that you are changing license types due to the change in the tasting regulations.
- This is a one-time change request and needs to be submitted no later than September 30, 2017. ABC does not normally process licenses this way and will not in the future.

Each year retailers ask me about selling seasonal gift items to SNAP recipients. Here are the guidelines you need follow as we get into this holiday season of the year.

Holiday gift baskets and seasonal items like holiday tins are NOT eligible for purchase with SNAP benefits if the value of the nonfood part of the item clearly accounts for more than 50% of the purchase price.

For Example:

A stuffed holiday bear sold with a small package of chocolate for \$14.99 would NOT be eligible for SNAP purchase, but

A gift basket consisting primarily of meats and cheeses or snack foods, and including a small toy, where the cost of the food items clearly accounts for more than 50%

of the purchase price of the item, would be eligible for purchase with SNAP benefits.

Baskets and holiday stockings that contain any amount of alcohol, cigarettes, cat, dog, or other pet food and/or pet toys may NOT be purchased with SNAP benefits.

Currently stores are required to have one person in the store with a Food Safety Manager Certification. The new food code requires that a certified food manager be present during all hours of operation.

This is effective January 2020. If a person with this certification is not in the establishment, they will lose 5 points on their inspection report and have 120 days to come into compliance. There is also a one-year grace period for class failure. AGA has been working with the National Registry of Food Safety Professionals to make sure our retailers can be in compliance.

The Retail Grocery Manager Certification is created by industry subject matter experts with questions and scenarios directly applicable to the grocery environment. The exam is accredited by ANSI and accepted in the same jurisdictions as the standard food manager exam. The process will remain easy.

- Purchase the book online from: <http://shopping.nrfsp.com/food-safety-management-principles-for-managers-english> for \$23.95.
- Have your employee study the book.
- Set up with AGA to have the testing administered. Testing will be done twice in the remainder of 2016

and will cost \$50 per person. To sign up for the testing visit: <https://alabamagrocers.org/food-safety-manager-testing/>

- We will be testing on November 10 - Deadline to register is October 20.
- We will be testing on December 8 - Deadline to register is November 17.

The 2017/2018 AGEF Scholarship Posters will be mailed by the first week in December to be posted by December 15 to each and every AGA member and store location. Please advise your store managers and/or HR Managers to post these in the break rooms for your employees. Be looking in the Market Minute for a copy to also print and give your employees to post as well.

We encourage you to spread the news about the AGEF Scholarship Program to all your employees that are either in college or have children in college. The website will also go live on December 15 at <https://alabamagrocers.org/foundation/scholarship-information/>.

Applications can also text the word "Scholarship" to 313131 and receive the link to the application on their phone.

As always, our Association is happy to be a resource on all sorts of grocery related topics. Don't hesitate to call on us when you are in need.

Have a safe and happy fall season,

Ellie



AGA NEWS

AGA ENDORSES LUTHER STRANGE FOR U.S. SENATE

The Alabama Grocers Association, the leading voice of the grocery industry in the state of Alabama, has officially endorsed Luther Strange for United States Senate.

Founded in 1990, AGA is dedicated to advocating for a business climate that creates, protects and promotes the grocery industry in Alabama.

“Senator Strange understands the role of the grocery industry and its importance to the economy of the state of Alabama,” said Ellie Taylor, AGA President. “Federal laws and regulations have a direct impact on our member companies and he will continue to be a great leader in the U.S. Senate.”



Sen. Luther Strange

Strange graciously accepted the endorsement.

“I appreciate this endorsement and the confidence placed in me by the Alabama Grocers Association. For too long, unnecessary federal regulations have been a wet blanket on this industry, keeping them from expanding and hiring. As Alabama’s Attorney General, I fought the expansion of federal red tape, and as your Senator, I will fight even harder to roll it back.”

As Attorney General, Luther Strange fought for grocery related issues including frivolous patent trolls that would prohibit a person from asserting a

claim of patent infringement in bad faith and organized retail theft.

He was also a leader in opposing costly overregulation and the expansion of the federal government at the expense of the state and Alabama jobs.

“As a member of the Agriculture Committee, Senator Strange will play a vital role in the design of the next farm bill,” said Frank D’Amico, III, BTC Wholesale Distributors. “Programs in this bill include the Supplemental Nutrition Assistance Program (SNAP) and Woman, Infant’s and Children’s Program (WIC) which have a direct effect on the ability of the grocery industry to serve the needs of their consumers.”

AGEF Fall Golf Outing

**October 19th
Tee-Off at 8:30am**

**Inverness Country Club
1 Country Club Drive
Birmingham, Alabama**



**For more information visit
www.AlabamaGrocers.org**



OUT AND ABOUT

AGA HAPPENINGS



AGA and NGA Board Member Jimmy Wright, Wrights Market testifies at the Senate AG Committee on the SNAP Program.



Alabama Grocers Association along with other Key Industry Leaders met with Governor Kay Ivey.



Wade Payne, Director of Retail for Food Giant Inc. gives US Representative Gary Palmer a store tour of the Lucky's Supermarket in Montevallo.



U.S. Senator Luther Strange takes tour of Wright's Market in Opelika, Alabama.



Paul Amore of Quirch Foods, Wesley Trumble of Acotsa, Jessica Brown of AGA and Scott O'Brien with PWADC at the Piggly Wiggly Food Show.



AGA NEWS

ALABAMA GROCERS ASSOCIATION HOLDS 27TH ANNUAL CONVENTION

The Alabama Grocers Association recently held its 27th Annual Convention at the Sandestin Beach Resort in Destin, Florida.

The Association brought members from all aspects of the grocery industry together to promote the growth and success of the food industry throughout Alabama.

The convention kicked off with the Larry D. Eddleman, Sr. Golf Classic at the Baytowne Golf Club.

The evening followed with a silent auction and casino party. First Place golf winners included Graham Minor, Trey Day and Brad Maness with Bevco Beverages and Pete Mahoney with Food Giant.

A silent auction and raffle chaired by Johnny Collins of Dean Foods was held Monday night which raised more than \$30,000 for the Alabama Grocers Education Foundation. This year the Alabama Grocers Education Foundation awarded 61 scholarships totaling more than \$59,500, and to date has awarded more than \$1.2 million in total scholarships.



Mac Gipson, Alabama Beverage Control Board

The business forum was held the following day and included Keynote Speaker, Thom Singer, a sales and marketing veteran, who spoke on connecting with people in a gadget crazed world.

Mr. Eric Pulwicz, FBI Special Agent, held an active shooter seminar and informed attendees how to manage real-life situations, address employer responsibilities and develop workplace strategies. ABC Administrator Mac Gipson addressed the group on the new Off-Premise Tasting Regulations that go into effect August 5, 2017 and Stacey Neumann, Vendor Management Director, Alabama WIC Department addressed attendees on the upcoming e-WIC rollout beginning in 2018.

Lastly, an e-Commerce Panel was held to teach attendees the newest consumer trends and best practices related to home delivery and click-and-collect services. Tuesday afternoon also included an exhibit hall



Sales and marketing veteran Thom Singer was the convention's keynote speaker.

with featuring more than 70 booths from all aspects of the grocery industry.

The Chairman's Banquet featured football legend Al Del Greco as celebrity entertainment. Several awards were given including a Joint Resolution from Senate Agriculture Conservation and Forestry Chair Tom Whatley commemorating the SNAP Online Pilot Program to Jimmy Wright, Wright's Market.

Association Legislative Consultant Patrick McWhorter presented Senator Jabo Waggoner with the Spirit of Alabama Award, which recognizes individuals that are involved in the support of pro-business legislation and are advocates for the grocery community in Alabama.



Convention attendees enjoyed a special Casino Night.



Chairman Greg Gregerson receives Joint Resolution in commemoration of the Glen P Woodard FMI Award



AGA NEWS



The convention exhibit hall featured more than 70 booths.



Sen. Jabo Waggoner received the Spirit of Alabama Award.

A Joint Resolution was presented to Chairman Peter V. Gregerson commemorating his Glen P. Woodard award from the Food Marketing Institute from Senator Jabo Waggoner. Mr. Keith Lusk was given a plaque of appreciation

for his 12 years serving on the AGA Board and was made a honorary lifetime member. New Officers and Directors were installed.

Mr. Peter V. Gregerson, Jr., Gregerson's Foods, was given the Chairman's Plaque of Appreciation for his dedicated work during his two-year term as Chairman and the gavel was transferred to Mr. Frank D'Amico, III, BTC Wholesale, who will serve as Chairman until 2019.

About the Alabama Grocers Association: The Alabama Grocers Association is a state trade association representing the grocery retail industry since 1990.

With more than 135 retail members operating nearly 1,000 stores nationwide, as well as over 225 manufacturers, brokers,

wholesalers and other members, the AGA is the voice of the industry in the state of Alabama. For more information, go to www.alabamagrocers.org.



e-Commerce panel addresses those in attendance.



FBI Special Agent Eric Pulwicz.



The Monday Night Reception was a great networking opportunity.



Chairman Greg Gregerson (left) presenting Keith Lusk with Years of Service Plaque.



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AGA NEWS

The Alabama Grocers Association wishes to recognize its Diamond and Four Star Sponsors for their generous support of the AGA Annual Convention.

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Four Star Sponsors





VIEWPOINT

SOMETHING WENT BUMP



KEVIN COUPE
FOUNDER, MORNINGNEWSBEAT.COM

I WAS SITTING AT THE COUNTER IN MY KITCHEN, SIPPING COFFEE. NIBBLING ON A BAGEL. CHECKING EMAIL. IT WAS A FRIDAY MORNING, AND IT NEVER OCCURRED TO ME THAT AN EARTHQUAKE OF SORTS WAS ABOUT TO HIT.

That's when I got the alert.

"Amazon To Buy Whole Foods For \$13.7 Billion."

Yikes. Didn't see that one coming. On the other hand, it is the kind of disruptive move that for more than a decade I've been suggesting would come.

The outlines of the acquisition are, on the face of it, simple. It is an all-cash deal. Both parties hope it will close before the end of the year, though as of this writing it remains to be seen whether there will be a competitive bid for Whole Foods from another retailer.

Amazon has pledged to allow Whole Foods to continue to operate as it has, with Jeff Bezos saying, "Whole Foods Market has been satisfying, delighting and nourishing customers for nearly four decades – they're doing an amazing job and we want that to continue."

Which is the only part I'm really skeptical about. Because I don't think Bezos has any intention of letting Whole Foods continue the way it has, especially because it has of late been suffering through declining sales... not to mention what I tend to think of as creative stagnation.

*"So we sat in the house.
We did nothing at all.
So all we could do was to
Sit! Sit! Sit! Sit!
And we did not like it.
Not one little bit.
And then Something
went BUMP!
How that bump made
us jump!"*

**The Cat in the Hat
by Dr. Seuss**

I don't think Bezos is any more likely to let Whole Foods continue in its current ways than he was to let *The Washington Post* continue operating the way it always had when he bought one of the nation's premier newspapers.

I think Bezos sees Whole Foods in the same way that he saw the Post – as a business model that had not been able to adapt to an environment in which there is greater competition, and may have been unwilling to adapt to a digital economy that created entirely different expectations on the company.

Under his ownership and with his investment, the Post suddenly is a vibrant, profitable company (though that's in part because of a suddenly news-hungry citizenry...but it has been well positioned to take advantage of this).

My friend Tom Furphy, who propelled Amazon into the CPG business and then launched Amazon Fresh during his tenure there, told me that in the long run, "this is a good day for consumers, a good day for Whole Foods shareholders, but a bad day for the big incumbent retailers."

The game is changing fast, he said, and traditional grocers simply seem incapable of keeping up – they take too long to make the kinds of decisions they need to make in order to compete effectively.

What will Amazon do to make Whole Foods compete more effectively? I have some thoughts...

They're going to find ways to drive margin out of the business by being more efficient in buying, operations, and infrastructure. That is going to make Whole Foods a lot

more competitive on price – which is going to have an impact on every traditional grocer that has been able to steal market share from Whole Foods by offering lower-priced organics.

Can you imagine what would happen if Whole Foods announced the day after its deal with Amazon has been completed that every Amazon Prime member gets a 5 percent discount there?

Whole Foods has been slow and clumsy in its ability to take customer data and translate it into meaningful customer communications that can then translate into sales... but one has to imagine this is low-hanging (organic) fruit for Amazon. They'll fix that fast.

Subscribe and Save for Whole Foods products? Ordering via the Echo/Alexa system and Dash buttons? One has to imagine that all this stuff is on the table. And there will be no dithering – just incisive analysis and fast execution...with what at Amazon they call a Bias for Action.



iStock

There may be some Whole Foods customers who will see this acquisition as a negative, but not many, I'd guess...because I'd be willing to bet there is a ton of overlap between Prime members and Whole Foods customers. (Amazon Lockers at Whole Foods stores may be as commonplace as checkout lanes.)

Tom Furphy is absolutely right.

Big, traditional, incumbent retailers have to wake up. “Today is Day One,” is the Amazon mantra, and the folks there are moving fast. If you do not have an effective and efficient digital/e-commerce/automation strategy, you are facing nine miles of bad road.

By the way...When I write that traditional retailers have to respond, I'm not just talking about Amazon's specific competitive operations, but also the broader understanding of competitive and consumer realities that Amazon reflects. Because there actually is something going on here that is a lot bigger than Amazon. (If you doubt me, think about it the next time you go to a Circuit City, RadioShack, Blockbuster or Borders.)

It also is critical to keep one thing in mind – Jeff Bezos thinks long-term. In doing this deal, he has crystalized in his mind how Whole Foods fits into the Amazon ecosystem in 2020 and beyond.

“THE GAME IS CHANGING FAST, HE SAID, AND TRADITIONAL GROCERS SIMPLY SEEM INCAPABLE OF KEEPING UP – THEY TAKE TOO LONG TO MAKE THE KINDS OF DECISIONS THEY NEED TO MAKE IN ORDER TO COMPETE EFFECTIVELY.”

The question that traditional retailers in all segments ought to be asking is this:

What's next?

You can't just sit. You can't wait for something to go bump.

But if you do, I can guarantee one thing. You won't like it. Not one little bit. ■



INSIDE THE BELTWAY

ONE HUNDRED DAYS AND COUNTING: STATUS UPDATE



JENNIFER HATCHER

SENIOR VICE PRESIDENT
GOVERNMENT AND PUBLIC AFFAIRS
FOOD MARKETING INSTITUTE

REPUBLICANS MAY CONTROL BOTH THE WHITE HOUSE AND CONGRESS BUT THAT HASN'T TRANSLATED INTO SIMPLE SUCCESS IN MOVING LEGISLATIVE PRIORITIES.

Following the first few months of the year, the Trump administration and congressional leadership are realizing that one-party control of the White House and Congress does not necessarily translate into a simple or speedy process for passing their legislative priorities.

The Republican priorities remain – to get repeal and replace of the Affordable Care Act so that comprehensive tax reform can become a real possibility; to continue to identify and modify executive branch regulatory actions completed in the previous administration that are having a negative impact on job growth; and to continue to nominate and confirm individuals for key leadership positions throughout government.

In spite of the delays and setbacks, the Food Marketing Institute has seen some solid victories and positive developments on the regulatory and legislative fronts on our key issues.

Common Sense Nutrition Labeling

In May, FDA delayed the compliance date for its menu labeling regulation, just days before the May 5, 2017 compliance date. Compliance will now begin on May 7, 2018, and the agency is accepting comments on certain parts of the rule so the administration will decide how it needs to be changed beyond the additional time to comply.

Knowing how much work the industry has already done in preparation for the May 2017 date, our legislative efforts continue to stress the need for certain fixes to the rule, not to exempt the industry from menu labeling requirements.

Preserve Debit Swipe Fee Reforms

May also brought the industry good news when House Financial Services Chairman Jeb Hensarling (R-Texas) announced he would drop his efforts to repeal the debit reforms in his financial reform legislation. These reforms have prevented debit fees from exceeding the Federal Reserve caps and have allowed retailers more than one way to route a transaction – keeping competition alive.

After months of intense lobbying by FMI and many others in the retail sector, the Chairman acknowledged that the debit repeal provision was too contentious to remain in the bill. Retailers of all sectors joined FMI in hosting fly-ins, sending letters and e-mails to lawmakers to tell our story about why the debit reforms were critical to retailers and our customers.

Don't Require Us to Release Store Level Business Data

On the legal front, FMI took action in January to prevent the U.S. Department of Agriculture from releasing individual store SNAP redemption data. We filed a motion to intervene in the Argus Leader case based on our discussions with members of FMI's board in order to protect the sensitive and confidential information of our members' stores. Following FMI's motion to intervene, the judge issued a stay to prevent the retailer information from being released.

Health Care: Repeal and Replace May Be Easier Said Than Done

Despite the initial roadblocks, in May, the House passed the American Health Care Act, legislation designed to repeal and replace the Affordable Care Act (ACA). The bill support came only from Republican lawmakers, while 20 Republican members joined the full Democratic caucus in opposing the bill.

Among its many provisions, the American Health Care Act would eliminate employer mandate penalties; delay the ACA's "Cadillac Tax;" restore consumers' ability to use FSAs to purchase over-the-counter products without a prescription; and phase out the ACA's Medicaid expansion. FMI has been weighing in on these issues, as well as the protection of the tax treatment and ERISA preemption for employer-sponsored health benefits.

The contention surrounding the bill, the process and the underlying ACA leaves the legislative path forward for the bill very much up in the air, but by using the budget reconciliation process, lawmakers would only need a simple majority to pass the bill in the Senate which is why the Senate continues to press to pass their own bill and hopefully a bill the House can also take up and pass.

The months ahead will shed light on the future of health care and the broader implications of the legislative schedule, especially within the context of whether Congress will be able to pass a tax reform package.

Tax Reform is Critical

The House Ways and Means Committee began its series of hearings on tax reform, the most recent of which focused on the border adjustment tax. FMI submitted a statement for the hearing record in opposition to the border adjustment tax (BAT). While lawmakers continue to debate the details of a legislative package, the Trump administration released its latest proposal that may serve as a form of a framework for upcoming legislation.

The administration proposal would lower the corporate tax rate to 15 percent; tax pass-through companies' business income at 15 percent; repeal the estate tax; repeal the alternative minimum tax; and would not include a BAT. The path forward for tax reform is still uncertain for the second half of 2017, but FMI remains hopeful that Congress and the administration are serious about reforming the nation's tax system in the months ahead.

At the beginning of 2017, the prospects for achieving comprehensive tax reform had not been higher in years. As we approach the

halfway point of the year, lawmakers remain cautiously optimistic that Congress can still pass a tax reform package, albeit at a less accelerated pace. Administration officials and House leaders have publicly discussed the possibility of passing tax reform legislation before the August recess, whereas Senate leaders more temperately believe that a timeframe towards the fall or 2018 are not out of the question.

As leadership decides on a timetable, there is still widespread disagreement over what a tax reform package would look like. The potential inclusion of a BAT sparked a strong response from FMI and other retailers. FMI joined Americans for Affordable Products, a coalition of businesses and other interests that has focused on opposing any type of BAT.

Food Safety: FSMA Compliance Dates Are Here

Food safety is a top priority for FMI, and helping our members comply with FDA's Food Safety Modernization Act (FSMA) remains a significant focus within the organization. The compliance dates have now passed for several key rules of FSMA, and the food retail industry continues to move forward with its food safety planning as additional compliance dates approach in the months ahead. FMI will continue hosting training sessions to help FMI member companies and other stakeholders understand FSMA requirements and ensure compliance with the law.

Months without Labor Pains

FMI works on a number of employer issues on both the legislative and regulatory sides, including labor and wage policy, and we have seen several developments in this area under the new administration. The changes to overtime pay made under the Obama administration's Department of Labor (DOL) remain halted after a judge in the Eastern District of Texas issued a preliminary nationwide injunction before the Dec. 1, 2016 compliance date.

As of now, last year's changes to overtime pay remain stayed, and employers are not required to comply with the changes. Recently, DOL submitted a proposed rule for review at the Office of Management

and Budget that would rescind the Obama administration's persuader rule. The persuader rule greatly narrowed the advice exemption under the Labor Management Reporting and Disclosure Act (LMRDA) and required employers and consultants to report to DOL on communications made to employers with respect to union organization or collective bargaining.

For now, the nationwide injunction remains in place until there is further action from the agency. There also continues to be activity at the state and local levels. Georgia, Iowa, and Missouri have prohibited localities from mandating minimum wages or employee benefits of any kind. Indiana has preempted local regulation of employer use of criminal background checks, and 26 states now preempt municipal efforts to increase the minimum wage.

National Biotechnology Disclosure Standard?

Most people will remember the legislative efforts last summer to pass a federal law that would establish a national uniform standard for biotechnology disclosure. Congress passed S. 764, and President Obama signed the bill into law (P.L. 114-216) on July 29, 2016.

Since then, USDA has taken steps to begin the process of completing the retailer study required by the law to identify potential technological challenges that could prevent consumers from accessing certain digital disclosure methods. Deloitte has been retained by USDA to complete the study, and they anticipate that the study will be completed and recommendations presented to USDA Secretary Sonny Purdue by July.

Since the passage of the law, FMI has been participating in several working groups with other associations and stakeholders to ensure that the industry's concerns are addressed throughout the implementation process. Purdue has only been at his post for a little over a month, but we expect to learn greater details in the months ahead about the process the agency may take to complete its rulemaking by the statute's mandatory two-year deadline in July 2018. ■



WASHINGTON REPORT

THIS IS OUR CHANCE TO PASS TAX REFORM



PETER LARKIN
PRESIDENT AND CEO
NATIONAL GROCERS ASSOCIATION

MORE THAN 30 YEARS HAVE GONE BY SINCE OUR TAX CODE WAS LAST REFORMED AS A LANDMARK VICTORY UNDER PRESIDENT RONALD REAGAN.

With President Donald Trump in the White House and Congress under Republican control, the stars may have aligned once again. On the campaign trail, Trump promised voters his administration would usher in the most significant tax reform since Reagan and provide one of the biggest tax cuts in American history.

It's no surprise why this appealed to so many; in 1935, the United States had a one-page tax form consisting of 34 lines and two pages of instructions. Today, the basic 1040 form has 79 lines and 211 pages of instructions.

When the administration took office, Treasury Secretary Steven Mnuchin predicted tax reform would be done by the time Congress departed for the August break. That does not appear to be the case and Mnuchin has since backed away from that prediction. So where are we now and when could tax reform get passed? Or, will it get passed at all?

In June, Speaker Paul Ryan (R-WI) signaled that Congress was ready to get to work with a major tax reform speech. "President Trump recently introduced a set of principles for tax reform, and right now we - the House and Senate - are working with the administration to turn them into a transformational tax

reform plan. Chairman Kevin Brady and our Ways and Means Committee members are holding open hearings and meeting with stakeholders on this right now," Ryan said.

Tax plans that have been released to the public still raise many questions for the independent supermarket industry, such as, how will deductions be eliminated to pay for the proposed decrease in corporate tax rates, how will the proposed border adjustability tax impact food prices, will the LIFO accounting method be preserved and will the House and the Senate be able to agree on a bill?

During his speech, Ryan also promised to eliminate the estate tax, which is especially burdensome to family-owned independent grocers and wholesalers. Over half of the average supermarket's assets - the highest of any other industry sector - are not liquid, creating serious obstacles at the owner's death. As a result, many independent supermarkets have to consider borrowing, which could lead to slower growth, or shut the doors of the operations.

The National Grocers Association (NGA) and the independent supermarket industry has been urging lawmakers to pass once-in-a-generation tax reform that can create a level playing field for American businesses.

NGA has released the following principles to guide the House and Senate as they consider tax reform: lowering the tax rate across the board, maintaining the interest expense deduction, creating parity between pass-through entities and C-Corporations, rejecting a border adjustment tax (BAT), preserving the use of last-in, first-out (LIFO) method of accounting, and permanently repealing the estate tax.

As August comes to a close, NGA will continue working with Members of Congress to ensure tax reform remains a priority throughout the rest of the year by continuing to share the stories of independent grocers facing the onerous tax code. NGA has recently launched a monthly e-newsletter, titled NGA's Tax Return, to keep our members updated with the proposals on tax reform and their impact on the independent supermarket industry. Sign up to receive the newsletter at www.nationalgrocers.org/Tax-Return. ■



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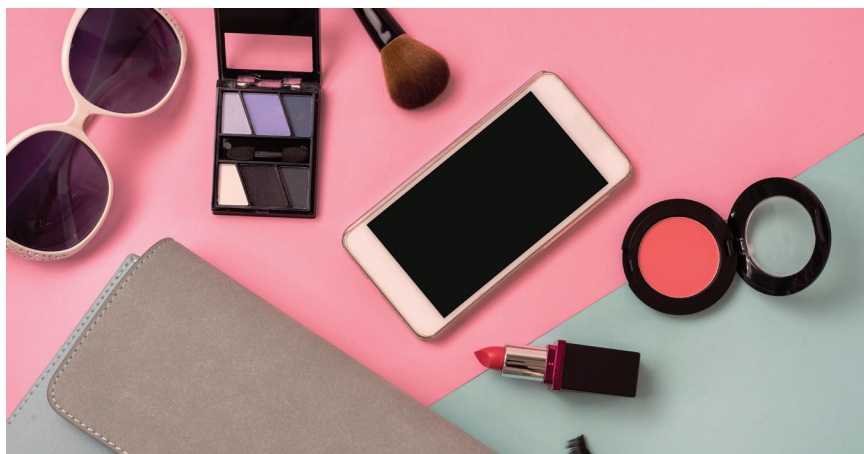




OUTSIDE THE BOX

NEW RETAIL PERSPECTIVES

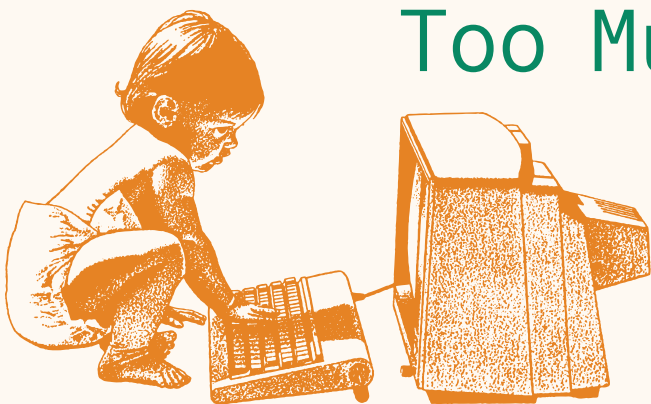
Makeup Markup?



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You might have to shift merchandising from edamame to eyeliner.

For the next generation of shoppers, what they buy may be determined more by looking good than tasting good. Gen Z, those coming of age kids who are as young as 13, is the first generation to use social media in their formative years and they are under pressure to look good. Researchers believe this will drive up spending for beauty products, and beauty and fitness services. Spending soared about 200 percent in each of the last two years and YouTube videos are largely responsible.



Too Much Technology?

Clearly, technology can be maddening and unfathomable. That seemed to be the case with 6-year-old Brooke Neitzel from Dallas who was playing with her parents' Amazon Echo. The toddler asked the machine to play dollhouse. The next thing you know, a new dollhouse was delivered to the house along with four pounds of sugar cookies. Her parents have since installed a code to prevent unauthorized purchases.

Mall Malaise

Faced with massive store closings, digital competition and shopper fatigue, mall owners around the country are taking the technological bull by the horns and deploying smartphone and social media initiatives to keep people spending. Gone are the paper coupons and reward cards of yesteryear. Landlords are replacing them with phone apps and programs linked to credit cards that identify individual shoppers spending habits and target them with special offers. At the Chicago Ridge Mall, shoppers swipe their credit card at a kiosk to sign up for the Oh So Simple Rewards Program. For every \$250 spent in total at the mall's stores the consumer receives a \$10 reward.



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SMALL STEPS



iStock

More companies have developed incubator labs to develop new products. IKEA is taking the idea a step further by inviting others to join them.

The chain's Innovation Incubator Program invites startup companies to apply for a three-month stint in one of the retailer's labs in Sweden. Each company will get \$22,400, three months of free housing and access to IKEA's prototype shop, a test lab and hands-on access to the expertise of scientists working in the lab. IKEA wants to focus the incubator on eight key areas: food; disruptive technologies, customer experience, disruptive design, sustainability, manufacturing, supply chain, and analytics.

Mirror, Mirror



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Meanwhile, iconic beauty brand Estée Lauder, is launching its first Augmented Reality beauty app at UK retail outlets. It has been designed to give shoppers the opportunity to try on all 30 Estée Lauder shades in real-time, or on a static photo directly through the app. Beauty advisors are on hand at all locations to show consumers how to download and use the YouCam app. With over 400 million downloads globally, YouCam Makeup is one of the world's most popular beauty apps.

alt facts?

Stop the presses! Chocolate milk comes from brown cows. Hard to believe in this day and age, but recent surveys reveal that 16.4 million grownups in America don't seem to understand the origin of chocolate milk.



iStock

PRIVACY ISSUES


Sometimes it just doesn't pay to be a public company. That's what the members of the Nordstrom family are thinking as they mull whether to take the retailer private.

"Because of the changing dynamics in the retail environment, the group is evaluating whether the long-term interests of the issuer are better served as a privately held company," Nordstrom said in a regulatory filing. The family collectively owns about 31 percent of the company's shares.

Working in Concert

By Todd Hale, Principal
Todd Hale, LLC





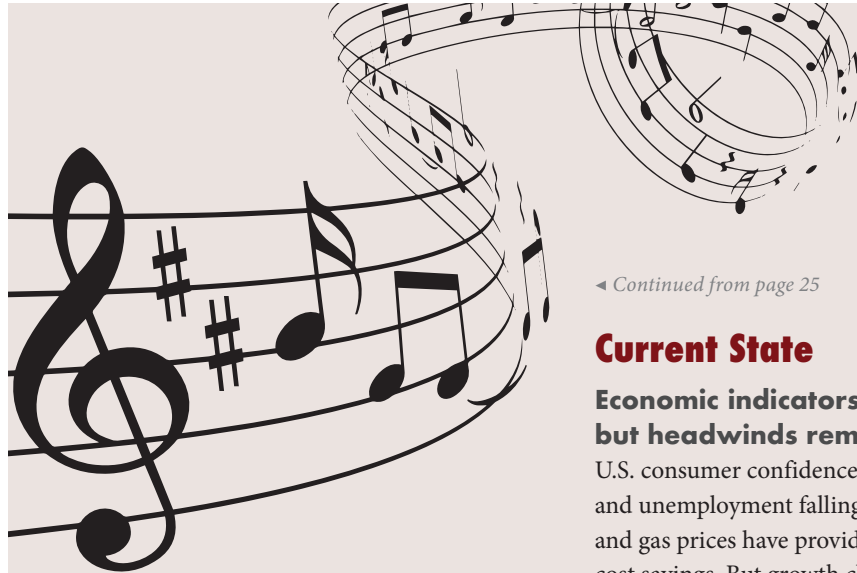
Over the past several years of recession and recovery, economic, demographic, and other influencers created fundamental changes in the way retailers and manufacturers met shopper demand.

Rate or pace of change in our industry has been running at incredible speed and it just keeps accelerating. We've relied heavily on the past to predict the future, but history is not always a good predictor for the future. It's okay to look in the rear-view mirror, but what's more important lies ahead!

Easier said than done, but companies who are not investing in the future will be short-lived. Now more than ever, organizations need to work "in concert" within and outside of their organizations to drive growth.

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Continued on page 54 ▶



“Growth has been most challenging for the largest U.S. fast-moving-consumer-goods manufacturers.”

◀ Continued from page 25

Current State

Economic indicators improving, but headwinds remain:

U.S. consumer confidence has been rising and unemployment falling, while lower food and gas prices have provided shoppers with cost savings. But growth challenges continue as headwinds from aging population, low population growth, low birth rate*, low working rate, rising health care costs, and other spending challenges** remain.

Total store sales soft as deflation impedes growth; growth in perimeter continues:

Across Nielsen-measured retail channels, departments and categories, total store gains have been less than spectacular.

Over the past four (52-week) periods ending April 1, 2017, dollar sales grew, on average, by 1.7 percent and sales were up only 0.3 percent in the latest 52-weeks. Low or no unit sales growth has been more problematic. Food deflation is a major factor in the latest period and had the greatest impact on supermarket growth, but most channels have been impacted. Non-measured retailers (e.g., Costco and e-commerce retailers like Amazon) would elevate growth levels, but likely adding no more than one percentage point to all-outlet growth.

The deli and produce departments have been leading department-level growth as demand for fresh and products closer to the point of consumption continues to rise. Shoppers are opting for prepared meals and meal components over ingredients as demand for immediacy grows.

The health care department is right up there too as consumers (particularly the older and the younger) appear to be taking charge of their health needs and avoiding trips to the doctor's office.

Small manufacturers winning; retail format no guarantee of success:

Growth has been most challenging for the largest U.S. fast-moving-consumer-goods manufacturers. Smaller, more nimble or innovative companies, with greater focus on niche-oriented products have been gaining share at the expense of the largest manufacturers and private brands.

Ken Harris, Cadent Consulting Group, speaking at a National Frozen & Refrigerated Foods event in April of this year, brought up the idea that companies need to think small to innovate. A path in which some large U.S. companies have taken seriously as they have been investing in smaller companies to help them enhance and speed up their innovation efforts.

Value- and convenience-oriented retail channels continue to lead store expansion, but retail format is no guarantee of success. E-commerce is becoming more mainstream and driving significant growth, but it is still a small player in many grocery store departments – particularly edibles.

Nevertheless, investments in e-commerce “click & collect” and “direct-to-consumer” by brick and mortar retailers are taking a huge bite out of investments in store expansion and/or remodels.

Bifurcation of wants: health & wellness versus indulgence

Health and wellness trends continue to grow and evolve, but indulgence is also winning consumer spend and retail investment. Nielsen Wellness Track reports how organic wellness claims have been growing consistently year-over-year with a four-year compounded dollar growth rate (CAGR) of 13.7 percent – considerably faster than the 0.3 percent sales growth (latest 52 weeks) across the store. Wellness claims driving the biggest growth on a long- (CAGR) and short-term (latest 52 weeks) basis were up between 49 percent & 93 percent and 21 percent & 43 percent, respectively.

However, many of the fastest growing wellness claims (e.g., amaranth, grain free, grass fed, and quinoa) are not big sellers. In aggregate, free-from or clean-label wellness claims are delivering solid growth, but manufacturers and retailers must balance their investment in those claims while continuing to leverage claims that drive big sales and more modest, but significant growth (e.g., natural, organic, non-GMO, and gluten free).

The Battle of Share of Stomach – It's Complicated

Nielsen fielded a survey in March 2017 to illuminate household-level meal buying and preparation habits and practices for both in-home and away-from-home occasions. The survey, completed by 22,312 Nielsen Homescan panelists, inquired about various activities households claim to be doing more often, about as often, or less often during the past six-months as compared to year ago.

In terms of activities U.S. households claimed to be more engaged in during the past six-months versus year ago, preparing home-cooked meals topped the list (44 percent of households claiming to be doing more often) followed by: to save money on food bills, trying to reduce food waste (39 percent doing more often); checking the household food pantry for inventory before shopping (36 percent); checking prices or deals before deciding where to buy food (34 percent); serving leftover meals at home (33 percent); preparing meals at home or taking leftover meals to eat at work or school (32 percent); making healthy food choices when eating at home or away-from-home (31 percent); stocking household food pantry (27 percent); and checking prices or deals before deciding where to purchase a restaurant meal (25 percent).

Good news for the grocery retail industry is how more of these activities were related to at-home meal preparation. Households continue to focus on pre-store planning and the importance of good prices and deals in

determining where they shop, but nearly four in 10 households are managing food bills by reducing food waste and one-third of households are serving leftover meals in the home, at work or school.

Today, recipes are very mainstream on retailer, manufacturer and food publication web sites. It would appear our industry has an opportunity to do more cross-merchandising activities between food and food storage assortment and recipes should also include tips for leftover management.

Another interesting finding from this survey is how the percentages of households doing things “less often” is where Nielsen reports higher percentages of household engagements. The top activities in which households claimed to be doing less often include: ordering meals via phone or online for home delivery and consumption (53 percent of households claiming to be doing less often); eating at higher-end restaurants (53 percent doing less often); ordering meals via phone or online for pick-up and consumption at home (49 percent); eating at a fast-food restaurant (i.e., McDonald’s, Burger King, etc.) (47 percent); purchasing meals out during work or school (46 percent); eating at a fast-casual restaurants (i.e., Panera’s, TGIF, Applebee’s, etc.) (43 percent); taking prepared meals purchased at a retailer to eat at work or school (43 percent); serving ready-to-eat prepared meals purchased from a retail (40 percent); visit food-related websites or social networking sites before shopping or eating at restaurant (i.e., looking for recipes, recommendations, etc.) (33 percent); and to save on food bills, reducing food consumption throughout the day (21 percent).

Again, these results highlight greater opportunities for the grocery retail industry as more of the reductions relate to the restaurant industry. However, while ordering meals via phone or online delivered to your home and eaten at home was number one on the list of areas where households claim to

“Health and wellness trends continue to grow and evolve, but indulgence is also winning consumer spend and retail investment.”

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“Competitive threats from existing or unknown sources will continue to cause organizations to evolve”

be doing less, have you looked at same-store-sales growth for Domino’s?

They delivered 10 percent + growth in 2015 and 2016 and that level of growth continues into 2017. Domino’s is very digitally connected, mostly about home delivery, and has broadened their offering beyond pizza.

Also, expansion of third-party restaurant delivery services like UberEATS and Grubhub, as well as an increase in the number of restaurant chains (e.g., McDonalds and Panera) who have or will be broadening their food pick-up and delivery options, is expanding at a rapid pace and the increased availability of these offerings will likely have a negative impact on food retailing.

It is not a good sign to see 40 percent of surveyed households claiming to be serving heat and eat frozen or refrigerated meals purchased from a retailer less often. In line with survey results citing greater consumer demand for home-cooked meals, as well as growth in the number of online meal kit offerings, announcement of supermarket chains launching their own meal kit options has been on the rise.

This calls out the need for frozen and refrigerated food manufacturers to continue focusing their innovation efforts around fresh ingredients, clean labels, and on products which include the latest flavor trends. It may also suggest opportunities for new offerings that allow options for consumers to add fresh items to frozen and refrigerated meals or snacks; frozen meal kits; and/or for convenient frozen or refrigerated sauces to enhance prepared meals.

Competitive threats from existing or unknown sources will continue to cause organizations to evolve. Competing against retailers with enhanced scale and lower prices means that most supermarket operators must begin working in concert

across the entire store to make the most out of cross-merchandising and customer service engagements that power the entire store and provide a point of differentiation.

Pitting department against department regarding performance targets must become a thing of the past. Store employees must be trained to help shoppers across the store and should never, ever utter the phrase – “Sorry, but that is not my department.”

Winning in the Future Means Staying in and Ahead of Trend with:

Demand for fresh, now and for me

Products need to have the appearance of being less prepared or processed, more convenient and portable, and deliver a meaningful consumer experience. The increase in see-thru packages help shoppers see the “fresh-looking” ingredients. Salty snacks have delivered the largest increase in absolute dollar sales over the past four plus year illustrating the opportunity for products which can be consumed on the go.

Demand for health & wellness versus indulgence

Transparency and free-from movement are key drivers of the health and wellness product claims, but what’s next and how do you stand out from the competition when everyone else is on trend? Don’t forget about the power of indulgence – just check out how fresh pies and premium desserts have been delivering solid growth.

Enhancing the in-store and out-of-store experience

Retailers have been investing heavily in their store formats, and in- and out-of-store marketing communications, to differentiate and create unique consumer experiences. However, with rising employee wages and

pressures to invest in e-commerce and digital tools, balancing those investments that will have the biggest impact on sales and shopper satisfaction creates significant challenges. Manufacturers should be looking for opportunities to assist in these efforts to ensure that focus on their categories or brands are not compromised.

Managing the negative and positive impacts of e-commerce

How e-commerce friendly are your categories or brands? Do you need to alter packaging to make them easier to ship or do your products provide retailers with the ability to drive store trips and minimize potential trip compression resulting from increased digital shopping?

As retailers are collaborating with third party organizations (e.g., Instacart, Uber, and Shipt) to build their click-and-collect and direct-to-consumer e-commerce capabilities, manufacturers should invest in their own or collaborative e-commerce offerings. The growth in e-commerce will only accelerate, don’t think you can survive and thrive without meaningful investment.

Transition from mass-marketing to niche-marketing among a diverse population and an ever increasing and fast-paced digital age

As a population, this country has never been more diverse and future population projections illustrate how this trend is likely to continue. Retailers and manufacturers must balance investments in flavor profiles or products with appeal to more niche-population segments, while managing the potential long-term decline from their current line of big selling items.

Nielsen research illustrates how diversity in advertisements leads to enhanced reach and resonance. It has also identified how diverse populations are more engaged in digital tools and communications, yet the grocery retail industry continues to over-spend on traditional paper-based weekly flyers.

Plan Bee – Do You Have One?

I came across a fascinating story about work being done to create a bee drone prototype (named “Plan Bee”) to solve a very threatening issue to our planet if the honeybee population continues to shrink. That story is very much aligned with a discussion about winning in the future. Businesses come and go; merger and acquisition activity for both manufacturers and retailers will likely accelerate; and



new competitors, which just might have a significant impact on your success, are just around the corner.

Organizations need to have a “plan bee” to be prepared for game changing events which threaten their existence. So, what is your “plan bee” and how is your organization working together to adapt to change and work in concert to thrive and grow? ■

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“GOOD QUESTION!”

BY LEN LEWIS



IT COULD BE A “GAME CHANGER” OR A “MASSIVE DISRUPTION” AND EVEN “CATAclySMIC”. BUT WHEN INDUSTRY PUNDITS ARE ASKED ABOUT THE OVERALL IMPACT OF AMAZON’S ACQUISITION OF WHOLE FOODS, THE BASIC ANSWER IS “GOOD QUESTION!”

The \$13.7 billion purchase by the dominator of digital retailing gives Amazon a valuable imprint in the brick and mortar world – a foothold it will use to broaden sales of food and non-food products and to expand its already extensive, but costly, distribution system.

The company recently announced the first in a series of steps that would validate the industry’s concerns, including lowering prices on staples like organic bananas, farm-raised salmon, brown eggs and ground beef. “We’re determined to make healthy and organic food affordable for everyone,” Jeff Wilke, CEO of Amazon Worldwide Consumer. More prices will be lowered as Amazon completes the integration of Whole Foods, he added.

As expected the company is also making its 365 private label available on its digital network including Amazon.com, Amazon Prime, loyalty programs which includes some 25 percent of U.S. consumers, Amazon Fresh and Prime Now,

In order to facilitate the Amazon Prime loyalty program, the company will expand its click and collect model with Amazon lockers in Whole Foods stores.

For Whole Foods, generally perceived as the gold standard in healthy eating, Amazon’s distribution efficiencies may be a way to increase sales across more demographics, and beat back competitors who have captured a bigger piece of the organic pie.

Still unclear is what the reaction of the industry at large will be to this new entity and whether marketing, merchandising and expansion plans will remain relevant in what is clearly a new world order for supermarkets.

“I’d like to say I’m seeing amazing reinvention taking place. But the truth is it hasn’t,” said Doug Stephens of Toronto-based Retail Prophet. “Right now innovation in grocery is largely window dressing. Chains are making stores look better, making food fresher and becoming more competitive on price. But all of these things are linear and incremental. That’s not the way Amazon thinks.”

By and large retailers are not reinventing the way people buy groceries, he said, noting that it leaves them vulnerable to the kind of disruption that Amazon can generate.

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A hint of what the industry might be facing came from Whole Foods Founder and CEO John Mackey who stated in a recent regulatory filing that he expects Whole Foods to maintain its premium standards, but didn't rule out the possibility that Amazon would launch other brands with different ones.

At a town hall meeting for employees in conjunction with the filing Mackey said that over time other formats could evolve that might not be branded Whole Foods Market and might not have the same standards.

He also stated that Amazon's well-known focus on technology, including the cashier-less Amazon Go concept, would help transform Whole Foods from "class dunce" into a "valedictorian."

Technology is generally considered the reason for Amazon's 10-year journey to get into the grocery business.

"The frequency of grocery shopping and the fact that it would bring people into contact with Amazon every day is tantalizing," said Stephens, calling the acquisition a data play.

"Purchasing across a wide spectrum of categories gives retailers tremendous insight into their consumers and families. As adept as it is with data, Amazon can target consumers with offers we've never seen before. They could literally sell groceries at a loss long-term in order to sell everything else," he said.

"It's the ultimate Trojan Horse. Once you become a regular part of a family's lifestyle, you have the opportunity to market other things."

Moreover, Amazon's distribution costs are tremendous and the 640 Whole Foods stores around the country are a great infrastructure for consolidating orders being shipped to customers and as pickup points for Amazon parcels, he said.

Meanwhile, industry observers are split over the deal's impact on CPG companies, many of which are already feeling the effects of consumer demand for fresh foods.

However, Amazon's prowess as a dealmaker in other product segments has observers thinking that they will be using their leverage to wring lower prices from suppliers.

Although Amazon's initial strategy is likely to be on reducing Whole Foods operating costs, James Thomson of Buy Box Experts, a brand consultant and a former manager of business development at Amazon, told an interviewer that the company will be "squeezing national brands on pricing."

Stephens, though, has an alternate theory.

"Jeff Bezos has always pitched the idea that Amazon is a good thing for CPG companies since he believes the company is a platform or marketplace where CPGs can connect directly with consumers – not a retailer," he said.

But Bezos has had meetings where he told CPG companies that there's no need to do business with a company like Walmart and succumb to margin pressure, or go through layers of distribution to get to consumers, according to Stephens.

"Amazon is the platform that will allow them to do that," he added.

Potential margin pressure on CPGs may indeed be overstated, said Stephens, noting the accepted myth that Amazon is always the cheapest on products.

"They're not compared with Costco, Walmart and Target," Stephens said. "But CPGs have to be careful if Amazon's intention is to create its own brands. They are so good with data, that whenever they see sales surging in particular items, those items become fair game for private label."

He added that Amazon knows its brand delivers its own level of trust which is why there are 82 million Amazon Prime members in the U.S. alone.

"That level of trust could open the door for a significant amount of private label goods," he said.

"TECHNOLOGY IS GENERALLY CONSIDERED THE REASON FOR AMAZON'S 10-YEAR JOURNEY TO GET INTO THE GROCERY BUSINESS."



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Stephens said he couldn't say for sure whether that expansion will be under Whole Foods' 365 banner or an Amazon-created brand.

"But I don't think they're in a hurry to change," he said. "They first have to study consumer sentiment around brands."

However, he is convinced the merger will result in more strategic or dynamic pricing. "It makes sense because there are so many inequities in standardized pricing," he said.

"Consumers who get product in the morning when it's fresher, pay the same in the afternoon when it's not as fresh," he said. Customers who buy from one store religiously pay the same price as customers who don't.

"I always felt the price sticker that John Wanamaker came up with so many years ago was the most inequitable form of pricing," he added. "We'll see if people continue to tolerate it."

At a meeting with employees, Mackey noted that since "frugality" was one of Amazon's core values, the initial focus of the company would be on cutting operating costs in order to lower prices for shoppers.

However, lower prices and potential expansion of the Whole Foods brand online could have a significant impact on branded manufacturers, according to Nicholas Fereday, food analyst for Rabobank, noting that "big food" might be faced with lower market shares.

Alexander Pease, Chief Financial Officer of Snyder's-Lance, said at a recent conference that the merger would result in discussions around price with other retailers.

However, the opposite view was expressed by Pablo Zuanic, an analyst with Susquehanna Financial Group, who said that Amazon and Whole Foods combined only have about 4 percent share of U.S. grocery sales, not enough to have an impact on bargaining power with big food companies.

Stephens is well aware of the effect Amazon has already had on the way people shop online but noted: "We forget things like this happen incrementally over time. Think back to the way online shopping was 20 years ago when it was difficult to



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“SINCE ‘FRUGALITY’ WAS ONE OF AMAZON’S CORE VALUES, THE INITIAL FOCUS OF THE COMPANY WOULD BE ON CUTTING OPERATING COSTS IN ORDER TO LOWER PRICES FOR SHOPPERS.”

locate an item you wanted and difficult to find good descriptions so you could buy with confidence and fast shipping with an assurance that the item would be received in good condition.”

“In short, online shopping was problematic,” Stephens said. “Amazon solved those problems and that’s why 60 cents out of every incremental dollar that’s spent online goes to Amazon and not the industry at large.”

He and other observers firmly believe that Amazon’s foray into physical stores will be dramatic and even “cataclysmic” for certain retailers.

Ultimately, those in the greatest danger are not the super deep discounters like Aldi and Lidl, or high end retailers like Wegmans or Eataly, but the mid-market retailers that compete on price and haven’t carved out a distinct advantage in customer experience.

Even before the deal is done, retailers are asking whether Amazon will continue along the acquisition trail.

“Amazon has made it clear that they see furniture and appliances as another major opportunity because these industries are notorious for being difficult to shop and difficult to get great service,” he said.

“So what would stop them from going in and buying a Restoration Hardware, Williams Sonoma or even Sears?”

Right now, according to Stephens, they’re just “testing their skill” at ingesting another company successfully and make it a working part of the Amazon eco-system.

“It’s a difficult thing to do,” he added.

“There’s no shortage of acquisitions that failed miserably because of cultural differences or leadership squabbles.” ■

Fresh

Ideas on Perishable
Shrink



By **Larry Miller**

Let's start with a simple premise: there is an acceptable and necessary level of perishable shrink, but there are proper limits.

Amazon, Walmart and others are coming for our sales. Our best defense will be exciting, well merchandised, well run and excellently branded fresh/perishables departments. Do your stores deliver on your perishables brand promise? If not, take a fresh approach to quality and freshness through shrink anticipation and prevention.

If we are to be sales-driven and control oriented, loss prevention professionals must collaborate with perishable supervisors to know each department's profit objectives and help to implement operational processes to help assure profit realization.

Anyone who has ever been responsible for selling perishables – whether it's produce, meat, deli, floral, or seafood – knows that there is a direct correlation between display and merchandising and sales. The more you display, the more you sell, but more merchandising can also lead to higher shrink.

Therefore, the smartest way to minimize perishable shrink is to sell it. And (of course) to sell it while it's fresh. So, the science (and the art) of selling perishables and controlling shrink for perishable profit optimization is an important study.

Here are some vital impact points that must be implemented to get the most profit out of your perishable departments. There are seven steps, or process effectiveness check-points, required to optimize perishable department profit. Miss any of them, or fail

to train your managers to understand them, and you simply cannot and will not achieve best-in-class perishable profit optimization within your company's plan.

Let's begin by setting expectations. Use the chart on the next page to determine where you are today in your perishable profit structure and where you want to be in the next three to six months.

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Perishable Shrink	High	Medium	Low
Meat	5.8%	4.9%	3.7%
Produce	6.5%	5.2%	4.0%
Deli	8.0%	5.8%	4.9%
Bakery	10.2%	7.4%	6.5%
Seafood	6.3%	5.4%	4.1%
Floral	12.0%	10.5%	8.9%

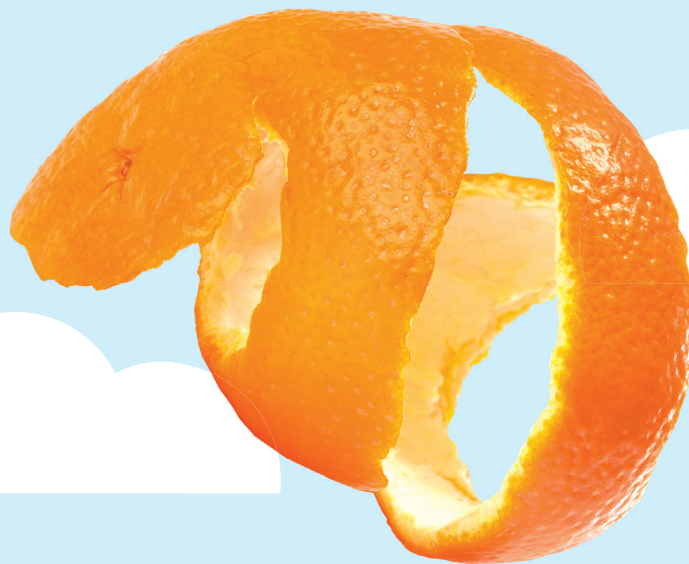


*Estimates are format dependent and based on store sales of \$15-20M annually.

- Most perishable shrink is caused by poor operational controls, failure to execute effective best practices consistently, and/or department personnel indifference.
- Individual perishable merchandising techniques and “go-to-market” strategies have a direct impact on shrink.
- Floral departments that operate as a sub-department to produce tend to experience 30% less sales and/or 18-27% higher shrink.
- When a product doesn’t sell as anticipated, the natural reaction is not to reorder it, which then causes sales to suffer. There must be a balance between shrink and sales.

Note: When store managers and loss prevention are fully trained to understand, inspect, manage and work together for the proper execution of perishable department best practices, shrink can be reduced as much as 18-22%.

Rethink the way you dispose of something as simple as an orange peel.



The Smart Store Manager's Role

In all of perishables management and profit optimization, the most important initiative is teaching store managers to understand and supervise their perishable departments for optimal profit and customer satisfaction. This training precedes all reports and graphs and charts and technology.

Store teams need to see and feel profitable operations and then be additionally enabled by smart technology. A well-trained store manager is your linchpin to delivering a clean, fresh, well stocked, and customer-service ready profitable selling condition.

Perishables have the power to give your store a distinguishable personality and will touch the customer's senses in a way that dry groceries can't.

Start every day with a "purposeful" store walk. Store managers should walk their stores frequently and inspect perishable conditions and readiness every two to three hours.

When walking the store, a manager should generally consider these priorities:

- The Morning Store Walk: Ensure detailed rotation for freshness, items on hand and stock readiness, advertised item availability to meet the day's anticipated sales, backroom and coolers organization and cleanliness, proper signage per company plan, store floor safety check, and proper execution of prior evening close-down, clean-up, and next-day prep.
- The Mid-Day Store Walk: Coolers clean and organized, code dated for quality and freshness optimization and FIFO rotation.
- The Mid-Day Walk is also the time Manager's should recognize over-stock conditions and make determinations inventory rotation, backdoor security checks, all racks level and properly merchandised, dumpster check for excess loss, known loss recordkeeping, specific awareness of department sanitation best practices, and store floor safety check.

- The Afternoon Store Walk: Advertised item availability to meet the day's anticipated sales, department manager plan for evening coverage, product presentation is neat and ready to meet anticipated sales, and store floor safety check.

The Sanitation of Making Profit with Perishables

No study or discussion of perishable department shrink control would be complete without a review of necessary sanitation practices. Remember that, unlike groceries or frozen foods, perishables are living (hence dying) materials, which means that germs and bacteria can easily grow there.

Unclean or poorly refrigerated conditions accelerate the cellular breakdown of perishable products. Proper refrigeration, sanitation, and handling slows this deterioration process and reduces your perishable shrink. Review the chart to the right for proper refrigeration temperatures.

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7 Basic Steps to Perishable Shrink Control

1. Start with a Smart (Proper) Order:

Write a smart, well-conceived order to meet anticipated sales and display requirements. An improper order is often the #1 source of perishable shrink.

- A Quick Formula: $\text{IOH} + \text{Order} - \text{Sales} = \text{a full display rack with never more than 3 days of back-up inventory in your coolers. Base your orders on anticipated sales, "truck-to-truck."}$
- Follow the "Rule of 3." Order perishables for sell-through in 3-days. Sell what you receive within 3 days and you will minimize shrinkage.

2. Receiving, Refrigeration, Rotation:

Improper handling is the second biggest cause of perishable shrink and can stem from an improper order.

- A tell-tail sign of a department under control is an organized, product date coded storage cooler. Proper handling starts immediately upon receipt of new product. Get it in the cooler.
- Occasionally you will be force delivered short code product. Be sure to position for correct product rotation.

3. Production Planning/Yield/Cycle Cutting:

Whether produce, meat, or deli you must plan your production and display the freshest product as close to the point or time of its sale in order to maximize your potential profit yield.

4. Display Space Allocation and Selling:

Display space allocation philosophy differs dramatically from company-to-company.

- Produce, meat, deli and bakery all degrade faster under florescent lights and/or in the display case than they do in the constant temperature of your storage cooler.

- Display the full amount you believe you can sell within your companies display and merchandising policy. In very high-volume departments that may be 1-2 hours. In lower volume departments that may be 4-8 hours (depending upon the product.)
- We all know that "signs sell". Often called the "silent salesman" keep your department and focus items properly signed.
- Remember that "over stacking" causes product damage and spoilage. If you see it, fix it.

5. Known Loss/Dumpster Diving:

- First Loss Rule: In the best of companies, conditions will occur when excess inventory accumulates. Don't delay. When you recognize an over-stocked or over-displayed condition, take action. Sign-in. Take an initial price reduction to sell the excess before it degrades.
- Track all product markdowns and value loss. This is vital. If you can see your loss you can plan to control it in the future. Track it, record it, total it and know your "known loss" as a percentage of sales each week. Known loss can be as little as 30% or as much as 50% perishable shrink. Finally, just because it's "known loss," doesn't make it acceptable loss.

6. Sanitation and Refrigeration:

- Poor sanitation contaminates and poor refrigeration accelerates the deterioration process. In the perishable areas, we must manage and execute best practices for sanitation and cleanliness.
- Most often, "the nose knows" and you can smell an unsanitary condition. But sometimes conditions can smell clean and even look clean, and still be unsanitary. Be sure it's clean, fresh, and sanitized regularly.

7. Store Manager and Loss Prevention Training as a Business Imperative:

- The 10 Disciplines: (1) The Clean & Organized Backroom, (2) Disciplined Cooler Management, (3) Formal Known Loss Management, (4) Periodic Rack Inspection, (5) Display Allocation Verification, (6) POS/PLU Scan File and Advertised Item Audit, (7) Cashier Product ID Testing, (8) Proper Signage, (9) Sanitation: Keep it Clean and Fresh, (10) Regularly "Inspect What You Expect."
- Read: National Supermarket Shrink Survey "Perishable Shrink Control; Causes and Cures."
- Read: Cornell University Managers Guide to Retail Loss Prevention – "Perishables Best Practices."

Important Footnote: While trying to minimize shrink you must always be sales driven. Remember, "if you don't have it when they want it, they won't want it when you have it." ■

Editor's Note: Larry Miller is a 40-year retailer and profit improvement consultant. As a nationally recognized shrink prevention expert he has founded Trax Retail Solutions, creators of the Shrink Trax cashier theft and fraud prevention system, The Total Store Manager Training Programs, Smart Retail Solutions, ProfitTrax for whole store profit improvement and the National Supermarket Shrink Survey. Larry has implemented his BI Analytics technology and Store Manager Best Practices Programs in over 900 retail clients. He can reach at (602) 448-8500, or larry@SmartRetailSolutions.com.

Smart Technology Reveals Perishable Profit Loss

According to the 2014 National Supermarket Shrink Survey, perishables account for more 64 percent of total store shrink. Companies need to ensure that store managers and loss prevention specialists are trained in the best practices of perishable shrink control. Proper use of expert BI technology will reveal profit loss patterns and trends. Here are three examples of perishable shrink:

Example #1

Meat Discount Coupons Cause Profit Erosion

At one major grocery chain, ProfitTrax revealed that meat discount coupons were contributing to unaccounted for gross margin erosion of up to 1.5% of sales and were the cause of prices being increased to cover the missing gross margin. Misuse of discount stickers also masks over production of fresh meat items. (While not a factor in these cases, discount coupons are also known to be a contributing factor in theft/ discounting and theft at the POS.)

CASE VALUE: Loss of 1.4% of Meat Gross Margin

Example #2

Inefficient Known Loss Tracking

Most companies use a Known Loss tracking programs. Research reveals that Known Loss control is the #1 most inconsistently executed program in most perishable departments with only 65% of actual Known Loss being recorded. When properly tracked and causal conditions mitigated by consistent best practice implementation, true Known Loss can often be reduced by 18-22% in a matter of just a few weeks, resulting in a significant profit improvement and potentially leading to competitive pricing advantage.

CASE VALUE: Profit Improvement of .88%

Example #3

Smart Ordering and Cooler Management

For years we have been talking about code dating coolers for proper FIFO rotation. This is one reason but it misses the real value proposition. Consistent implementation of Cooler Management Best Practices leads to a systemic profit optimization culture and training environment.

CASE VALUE: 22% Shrink Loss Reduction

Improper Space Allocation

“When I started working in stores in 1968, my first perishable lessons involved ‘pile it high and watch it fly!’ Space allocation meant little. But today, we know that maximizing sales and freshness control require a more disciplined operational strategy. Today, it’s too easy to project daily sales requirements accurately and display to accommodate those sales. Strategic space allocation is a must!”

Inefficient Ordering Practices

“On one of my recent perishable department audits, we determined that a produce manager was consistently ordering 60% more product than required to accommodate anticipated sales. As we installed improved discipline, inventory-on-hand was reduced by 35%, and sales increased.”







15 MINUTES WITH...

DAVID TAMARKIN

EDITOR, EPICURIOUS

BY LEN LEWIS

Food is literally David Tamarkin's life – cooking it, writing about it, eating it (including a love of cookies for breakfast). As editor of Epicurious, the website which is part of an “Innovation Group” that also includes *Gourmet* and *Bon Appetit* magazines, Tamarkin is also a fierce proponent of home cooking.

In fact, one of his recent projects was a list of the 100 best home cooks of all time – a list that included actor Stanley Tucci and singer Patti LaBelle.

AG: Do people really want to cook or do they just say they do?

Tamarkin: “I think if you ask anyone if they want to cook, they'd say yes. It's generally seen as something desirable. There's only a small percentage of people who freely admit they don't like cooking.”

But you've said that home cooking is dying?

“We're not exactly in the Golden Age of home cooking. What you normally hear from people is that they either don't have the time or energy or it's not worth the effort or the money.”

Those are pretty strong negatives.

“Well, there's also a lot of messaging out there telling people that cooking is a big deal – a time consuming and energy consuming process.”

Where's that coming from?

“I'll give you one example. I'm on the New York City subways all the time where I see these ads for a home delivery service.

It's based on convincing people that cooking is too much of a hassle. So, the signs say things like ‘never trek groceries home from store again’ or ‘never turn your oven on again’ as if suggesting that both those things are undesirable. Shopping and cooking are being stigmatized.”

Are they playing on people's fears and insecurities about not having cooking skills?

“To a degree, yes! Statistically, cooking has fallen off sharply since the 1950s and 1960s. Oddly enough it's because of wonderful societal advances. We don't expect the woman's role to be simply in the kitchen cooking dinner and having it ready for her husband when he gets home from work.

And because there's less cooking in homes, there's less opportunity for children to see cooking taking place and absorb it by osmosis the way earlier generations did. There's no hard evidence, but it's likely and I get the sense, that people growing up with fewer cooking skills passed on to them by parents.”

That being case, will the next generation be culinary illiterates?

“Cooking literacy is low. The irony here is that there is increased interest in watching videos about cooking online and cooking shows on television. I can tell you those videos are the most consumed piece of content we put out. So, people must be absorbing some of it.”

But are they using it?

“I often wonder whether what they're absorbing is something they can do on their own. The more we push cooking as something you watch on television or on your computer screens, the more it seems like entertainment and the less they are likely to do it themselves. They'd rather watch professionals do it.”

So do cooking shows inspire people or do they just make cooking look more unapproachable?

“Interesting point. For years, the conversation about food in the media was largely focused on restaurants and chefs. But there's no comparing home cooking to restaurant cooking. It's not one-for-one. One doesn't translate to the other.

“Watching a chef on television doing sous vide or making a sauce with 30 ingredients is complex. People don't want to spend time and energy doing that. So I'm concerned that some people are being intimidated out of the kitchen.”

So talking about restaurant quality meals may not be the best strategy?

When we focus on chefs and restaurants, we risk alienating home cooks. It's important to differentiate them – but the media hasn't done that. Frankly, I'm as guilty as every other food writer out there in pushing how to cook like restaurant chefs. We have to make that distinction.”

You've mentioned the rise of subscription meal kits. Is

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this sustainable or a fad?

"I don't know if I'm qualified to say. It's more of a business question and I don't know the economics of that model. I feel that meal kit services can be a great thing for people who don't have time to cook or don't want to eat out all the time.

"On the other hand, if the idea is to get people acquainted with cooking and the kitchen then ideally, after a while, consumers won't need meal kits anymore. In that regard, it just doesn't seem like a sustainable business."

But they might make people feel more confident about cooking?

"I'm not sure meal kits will make people feel more competent. True cooking competence would be something that helps them learn to cook or exposes them to new ingredients before going out on their own. They want you to cook from these things all the time."

So, not true?

"The benefit of home cooking, and one of the things that creates a strong environment for cooking, is having ingredients in your pantry. So you miss out on the benefit of having extra sesame oil or adding things to the dish. Their argument doesn't play. Perhaps it does equal out ounce-for-ounce, but I think the consumer still loses."

In this respect, it seems takeout is a better alternative than a meal kit?

"It depends on what you're looking for. I don't judge people for the way they eat. There's nothing morally wrong with getting takeout. Cooking is not a moral act that makes you a better person.

"However, I get concerned that people miss out on the benefits of home cooking. There are clear economic and health benefits to eating at home – as long as you're not eating fried chicken and pie for dinner every night. In fact eating at home is probably healthier than eating at restaurants. There are also mental health benefits. Cooking can be very relaxing and meditative."

Maybe so, in a more perfect world?

"Clearly, there are a lot of barriers to cooking



David Tamarin

and not only economic barriers. If I had children I would probably cook less. There are plenty of single parents who simply don't have time. Also, kids are picky eaters. One won't eat chicken, the other won't eat fish or vegetables. It can be discouraging."

Our readers are asking how supermarkets can get people back from restaurants or keeping them. Any advice to get them back in the kitchen?

"Work on putting restaurants in grocery stores with some type of meal kit or having them select ingredients that can be put together in one package for a complete meal."

That's where prepared foods have come in?

"I know this has been a big growth area – perhaps the biggest in grocery, but it's also one of the reasons why cooking is dying."

Should retailers be handling things differently?

"Maybe meal kit packaging. Putting chicken cutlets in with a pack of panko bread crumbs and six eggs is a good way to spark ideas among shoppers in stores. A lot of people get into a routine when they go to the grocery store. They go on autopilot and just pick up the same things every time.

"The grocery store can inspire people to try new things by setting up displays with everything you need for dishes like Thai

curry or mustard glazed pork chops. Giving people inspiration can go a long way in bringing them back to the store."

So looking at food universe, what's the next big trend?

"I think more Americans will be cooking Indian food. With new spices, chilies and coconut milk. Coconut everything is huge right now. A lot of Indian cookbooks have come out in the last year or two. I think this cuisine is on the brink."

What should we be focusing on in Indian cuisine and ingredients?

"You can tell people they don't have to replicate meals from a restaurant. They can do things in a healthy way. Some recipes we've had on Epicurious are lighter takes on dishes like chicken tikka masala using yogurt instead of cream, or a chicken coconut curry with light coconut milk. There's also a lot of skillet sauces out there now that can help people. It's been big in Mexican cooking and we're starting to see Indian skillet sauces that will really inspire people. It's really going to make this cuisine more approachable." ■



MOMMY BLOGGER

SHOPPING TO SAVE

BY LARA FONG BALDWIN
BLOGGER

THE VERDICT IS IN: I SPEND A LOT OF MONEY ON FOOD. BE IT AS A SINGLE GIRL IN MY FIRST APARTMENT, A NEWLYWED IN AN ENGLISH FLAT, AND NOW AS THE KEEPER OF THE CRACKERS FOR TWO TINY HUMANS, MY GROCERY BILL SEEMS TO EXPAND EXPONENTIALLY WITH EACH PASSING YEAR.

The playdates! The barbecues and the birthday parties. The holidays and the hosting. The wine needed to sustain it all. Did I mention one of my baby's first words was "snacks"? Let's just say saving money at the store is on my radar. Here's what I look for:

Coupons and Sales

While I am nowhere near extreme couponing usage, you can bet I take advantage of the lazy gal discount methods: in-store coupons that are stuck to or very near the applicable product, the eerily personalized coupons that are given at checkout for my next visit, and store apps with quick electronic savings. Bonus: Store apps often have some kind of automatic rewards program, which equals more savings. I am also a sucker for anything on special offer; 2 for \$6 gets me every time!

Buying in Bulk

Most families I know rely on a bulk store for some portion of their groceries. I am most likely to buy bulk groceries if items are individually wrapped (for example, snack packs of chips versus one enormous bag),

for foods that are non-perishable or can be easily frozen, or if something is just really, really cheap. Bonus: I don't have to return to the store every hour for milk, bread and eggs. Two birds, one stone.

Subscription Service

Yep, I'll subscribe to save money. The key elements of a solid subscription service are the ability to freely edit my order, place it on hold, and cancel at any time. Think "low commitment." I have experimented with ongoing delivery of everything from milk, to

paper towels, to my hippie kombucha drinks. Bonus: I don't have to leave the house.

Shop Around

I know the store that has the cheapest bananas, the one that always has organic milk on sale, and the one that makes a generic version of my kids' favorite granola bars. Throughout the month, I'm on a grocery store carousel to pick up our favorite products at the best prices. Most of the time, I'm willing to wait it out until I make the next round to my preferred store for any given product.

I love it when the cashier tells me how much I saved on my visit. Though I have a sneaking suspicion that I often buy more in an attempt to save more, nothing makes me happier than having a stockpile of our favorite foods that I know I got at the best price possible. ■





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