Price Optimization and Promotion Management for Retail at Brookshire Grocery Company

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Agenda

- Company Overview
- Business Problems Facing Brookshire’s
- Brookshire’s Response (Selected Price Optimization & Promotion Management for Retail)
- Implementation Overview
- Business Goals and Objectives
- Questions
BGC Company Overview

- Founded in the late 1920s, Brookshire Holdings, Inc is a privately-owned, regional food chain headquartered in Tyler, Texas. Brookshire’s operating philosophy has remained consistent in its more than 80 years of operations: put people first and profits will follow. Brookshire’s considers its employees as partners. Brookshire’s strives to offer exceptional customer service by exceeding customers’ expectations.

Super 1 Foods® & Discount Pharmacy

Shop. Save. Smile.

share meals. share life.
BGC General Information

153 Stores operating in 3 states
120 Brookshire’s in Texas, Arkansas, Louisiana
30 Super 1 Foods stores in Texas, Arkansas, Louisiana
1 Fresh by Brookshire’s in Texas
1 Ole Foods in Texas
1 ALPS (Always Low Price Store) in Arkansas
Three distribution centers
  Two in Tyler, Texas, and one in Monroe, Louisiana
The following manufacturing plants
  Dairy
  Ice Cream
  Bakery
  Water/drinks
  Ice
  Fresh Cut produce
5 Convenience stores
81 Fuel Centers
114 Pharmacies
Company owned and staffed construction department
Company owned and maintained truck fleet
13,100 partners (employees)
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Shopping behavior continues to change.

Adjusting Strategies to Align with Shopping Trends

Increasing Trends

- Fewer Trips, More Stock Ups
- Price & Value Focus
- Trip Planning
- Deal Seeking

More Focused Shopping Strategies

More Conservative Behaviors

Grocery retailers making a comeback

Leveraging Shopper360® Insights

Source: TNS Shopper 360 V4-V6 (2008-2010)
Shoppers are making fewer trips and continue to spend less per month.

### Shop >1 Per Week (%)

<table>
<thead>
<tr>
<th>Channel Visits</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery</td>
<td>19</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Club</td>
<td>4</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Mass</td>
<td>9</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Supercenter</td>
<td>20</td>
<td>19</td>
<td>16</td>
</tr>
<tr>
<td>Drug</td>
<td>9</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Convenience</td>
<td>27</td>
<td>30</td>
<td>21</td>
</tr>
<tr>
<td>Dollar</td>
<td>10</td>
<td>11</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: TNS Shopper 360 V4-V6 (2008-2010)
Shopping frequency is declining as shoppers increase stock-up trips.

Source: TNS Shopper 360 V4-V6 (2008-2010)
Price and Value are becoming increasingly important as shoppers make their purchase decisions.

Pay Attention to Exact Price (T2B%)

- 2008: 45%
- 2009: 43%
- 2010: 46%

Name Brand Products Provide Greater Value for the $ (T2B%)

- 2008: 12%
- 2009: 13%
- 2010: 10%

Reasons for Main Store Selection (%)

- Close to where I live: 53% (2009), 53% (2010)
- Competitive everyday pricing: 46% (2009), 47% (2010)
- Ease of shopping: 25% (2009), 25% (2010)
- Quality of fresh foods: 22% (2009), 22% (2010)
- Attractive sales and promotions: 18% (2009), 19% (2010)
- Wide selection of products within departments: 18% (2009), 19% (2010)
- Brands I want: 15% (2009), 15% (2010)
- Wide variety of departments across the store: 13% (2009), 13% (2010)
- Excellent customer service: 12% (2009), 12% (2010)
- Store environment is enjoyable: 11% (2009), 11% (2010)
- Strong rewards program: 9% (2009), 10% (2010)

Source: TNS Shopper 360 V4-V6 (2008-2010)
Pre-trip planning intensified as shoppers sought out savings and value.

### Pre-Trip Planning (%)

<table>
<thead>
<tr>
<th>Preparation</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Made and brought a shopping list</td>
<td>34</td>
<td>34</td>
<td>40</td>
</tr>
<tr>
<td>Checked my pantry or refrigerator</td>
<td>25</td>
<td>23</td>
<td>31</td>
</tr>
<tr>
<td>Looked at sale items in a store circular or ad</td>
<td>19</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Asked other household members what they wanted</td>
<td>22</td>
<td>20</td>
<td>24</td>
</tr>
<tr>
<td>Brought manufacturers’ coupons</td>
<td>17</td>
<td>19</td>
<td>22</td>
</tr>
<tr>
<td>Brought this store’s frequent shopper card</td>
<td>16</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>Brought coupons from store circular or ad</td>
<td>9</td>
<td>9</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: TNS Shopper 360 V4-V6 (2008-2010)
Retailer Response
Traditional Retail Pricing

Regular Pricing

Cost-Plus…

Margin

Cost

…or Competitor Pricing!

Main Competitors’ Prices

Promotional Pricing

Negotiations with vendors/
Review of past promotions

Markdown Pricing

-10%

-15%

-30%

...

Standard Markdown Schedule

Typical pricing scenarios and traditional pricing techniques
A new Approach to Retail Pricing

Pricing today requires a different approach:

The **customer** (not cost or competition) decides whether a price is right or not...

...he advances his “opinion” by buying or not buying.

The POS data are therefore used to determine how the customer will react to price changes.

This is now the common base for...

... **Regular Pricing**

... **Promotional Pricing**

... **Markdown Pricing**

It is now possible to determine how lowering or raising certain prices will affect revenue, profit and even price image.
Pricing Philosophy Shift

Traditional Pricing

Focus: Competition/Cost

Cost
Competition
Customers

Demand-based Pricing

Focus: Customer

Cost
Competition
Customers

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Real Experience. Real Advantage.
Base Price Optimization for Retail ©

- Definition: Understanding how products interact (cross & within-category), and the tradeoff between profit, sales, and unit movement, determine the best set of prices to achieve the specified category goal.

- Understanding the solution
  - Product/Zone level model
  - Recommends price and allows what-if forecasting
  - Set goals based on price perception, profit, sales

- Best Practice ROI Considerations:
  - Current pricing and promotion processes
  - % of sales available for optimization
  - X-X% sales improvement while achieving X-X% gross margin dollar improvement
Extend Your Analytics Capabilities

Sense & Respond

Predict & Act

The key is unlocking data to move decision making from sense & respond to predict & act
Becoming Demand Centric

- Demand Model
  (location, seasonality, price, promotions…)

- Performance Forecasting & Monitoring

- Transaction Log Data
- Inventory Data
- Master Data

- Work Force Optimization
- Key Value Drivers
- Price Optimization
- Markdown Optimization
- Assortment Insight & Rationalization
- Replenishment Optimization
- Zone Optimization
- Advanced & Predictive Analytics

Margin

Plan → Buy → Allocate / Replenish → Sell → Promote / Clear

Optimal

Reality

Profitability Gap
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History of Price Optimization at BGC

- Implemented DemandTec Price Optimization in 2002
- BGC has deep experience in Price Optimization
- Monthly Waves of optimized prices
- 2 Dedicated Partners to verify optimized prices.
- 2 Partners are banner specific
- Great success in profit and sales increases using the product.
- 2006 SAP acquires Khimetrics
- 2006-2008 BGC Customer Centric Category Management Business Transformation Project
- SAP Builds roadmap for Demand Management and PMR platform
- 2009 BGC Develops Roadmap for Vendor Collaboration and end to end lifecycle pricing process.
- 2010 Implement SAP Price Optimization & Lowers TCO
- Establish team of Pricing Analysts
SAP Demand Management

**Price Optimization**

**Challenge**
- Effectively price product mix to maximize profit/revenues while maintaining a positive price image in the eyes of the customer

**Benefit**
- Maximize value
- Maintain competitive interests
- Accurate forecast of customer demand

**Promotion Management**

**Challenge**
- Identify a mix of products to promote which will meet stated business goals without giving away money

**Benefit**
- Reach identified goals by promoting the right products for the right offers without over promoting or promoting “affinity” items
- Accurate forecast of customer demand

**Markdown Optimization**

**Challenge**
- Systematically control markdowns by taking the optimal price reduction amount at the correct time minimizing margin erosion

**Benefit**
- Increase profitability and reduce storage costs by effectively marking down individual products at individual stores.
- Accurate forecast of customer demand

**Optimal recommendations based on product elasticities**

- Taking into account
  - Seasonalities
  - Competition
  - Cannibalization
  - ...
"The Elasticity of a product describes how a customer reacts to a price change of this product."

1. Either customers mind the price change and buy significantly more/less
   - Elastic Product
   - Elasticity > 1

2. ...or they do not mind the price and buy just a little more/less
   - Inelastic Product
   - Elasticity < 1
“The Opportunity Curve of a product visualizes achievable maximum combinations of revenue and profit for that product.”

Opportunity Curve

Profit

Revenue

Profit: $1.850
Revenue: $11.100

Currently unachievable Revenue/Profit combinations

Achievable, but suboptimal Revenue/Profit combinations

$2.00

$1.50

$10.00

$12.00

Real Experience. Real Advantage.
Any price on the Opportunity Curve could be optimal depending on category strategy and market dynamics
Price Optimization Process

ERP & BI Systems

Goals:
- Revenue
- Profit
- Price

Sales history
Master Data
Store Data
...
SAP Demand Management within Integrated Landscape

ERP

BI

POS

Files server

Pricefile.txt

Master Data.txt

Sales.txt

Real Experience. Real Advantage.
Demand Modeling

- ...is a way of combining products & zones in a way that makes it possible to price and analyze.
- ...is a framework for modeling and optimization.
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Price Optimization Implementation

- **Planning Phase** – 2 Weeks (2/16 – 2/26)
- **Realization Phase** – 14 Weeks (3/15 – 6/18)
- **Go-Live & Support Phase** – 8 Weeks (6/28 – 8/23)
- **Blueprint Phase** – 2 Weeks (3/1 – 3/12)
- **Final Prep Phase** – 1.5 Weeks (6/18 – 6/28)
Demand Management Platform

- Master Data
  - Items
  - Stores
  - Sales Channels
  - Inventory
  - Promotions
  - Offers

- Modeling
- Forecasting
- Optimization
- Strategy Management
- Execution
- Reporting/Analytics

- Point of Sale
  - Sales Transactions

Real Experience. Real Advantage.
Lesson Learned – Budget for Hardware

Optimization is resource intensive
Price Optimization: Data Flow

- Lesson Learned – Integration of Master Data
- Custom work maybe needed
Retail 2011
Solution Portfolio

SOLUTION TODAY

- Shopper Insight
- Merchandise & Assortment
- Product, Store, Customer Lifecycle
- Lifecycle Pricing
- Marketing & Promotions
- Loyalty Management

- Finance
- Real Estate & Asset Management
- Human Capital
- Risk & Compliance
- Sustainable Operations

- Integrated Demand & Replenishment Planning
- Sourcing & Buying
- Private Label Production
- Logistics & Fulfillment Management
- Supply Chain Performance Mgmt

- Store & Point of Sale
- E-Commerce
- M-Commerce
- Customer Service Contact Center
- Multi Channel Order Mgmt
- Customer Service Management

- Business Intelligence
- IT Operational & Service Excellence
- Enterprise Information Management
- Enterprise Data Warehousing
- Business Integration
- User Productivity

SOLVED TODAY
SAP Promotions Management for Retail

Objective

Connect promotion planning, creation, forecasting, and execution to improve promotion effectiveness and profitability.

Process

- Build promotion templates and create event & offer previews
- Forecast impact of promotional offers and deals
- Manage variations by product, geography, and date
- Roll-up financial impacts and performance planned events
- Interface to desktop publishing systems for print & display

Key Outputs

Approved promotion events and offers that are interfaced for execution at point-of-sale, in-store, and desktop publication.
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Business Goals and Objectives

Enable Collaboration between Vendors, Category Managers, Marketing and Advertising within the Retailer
- Ensure information is consistent throughout the Planning Process between these groups
- Improve Planning and Execution of Promotional Activities

Reduce the number of Tactical Tasks
- Reduce communications between Category Managers and Advertising with regarding to promotional Content
- Provide iterative support for the strategic Annual/Semi-annual planning process
- Incorporate re-use of previous Events thereby reducing time for Event creation

Leverage Assets from ERP and External Systems
- Ensure accurate use and re-use of Master data to eliminate errors
- Enable use of low resolution images which improves the proofing process
Enable Use of Templates that reduces time to execute and errors in communication

- Provide Templates for Pages and Displays which provide a vehicle to communicate Promotional activity between groups
- Templates allow use and re-use of information by merchandising and advertising
- Allow creation and re-use of Product Groups streamlining the Buyers process

Effective creation and communication of Event Plans

- Valuable time savings by enabling Event creation and management utilized by all Groups
- Providing a single source for association of Promotional Offers to Events
Business Goals and Objectives continued …

Facilitate consistent method of creating Promotional Offers

- Provide a cohesive method of Offer creation among all departments
- Allow simulation of Promotional Offers to realize the most effective Offers to promote to the consumer
- Permit the use of Vendor Funds in Offer to ensure proper margin calculations
- Enable the Use of Retailer to Consumer Incentives for Complex Offers

Enable Financial Review of Promotional Offer in Context with Events

- Enable Financials of Offers to be compared within the Event
- Leverages the ability to negotiate between categories for best financial performance of the Event
- Shows full financial performance at Space, Area (Page) and Event levels
- Enable user provided planned quantities
Business Goals and Objectives continued …

Forecast of Products within a Promotional Offer

- Integrate with a science-based engine to issue Product Store forecasts based on sales history and other influencing factors

Comprehensive Export of Promotional Information

- Enable automated communications with Desktop Publishing programs
Summary of Business Benefits

- **Improved productivity** – supporting better collaboration among vendors, marketing, Category Managers, and advertising execution groups; streamlining promotions through fewer cycles; and using resources more efficiently

- **Greater promotional effectiveness** – enabling the creation of relevant, timely, and targeted advertising (by product, category, and zone) via automated ad-versioning functionality

- **More accurate product and store level forecasts** – helping to understand the financial performance of each promotional event before making final decisions

- **Lower promotional costs** – reducing the time required to produce advertisements as well as the number of proofs needed for printing and reviewing
Thank you for participating.

Please remember to complete and return your evaluation form following this session.

For ongoing education in this area of focus, visit www.asug.com.

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