April 18, 2019 by Guest Author

Calculating accurate deprecation for equipment values is critical; explaining how that depreciation was calculated is just as important, especially for litigation cases, property tax appeals or purchase price allocation situations. Equipment can lose value in any of the three standards areas: physical depreciation, functional obsolescence, and economic obsolescence. In some valuation situations, the loss of value is obvious. In other situations, the loss can be more oblique. To address this, one might reference the theory of remaining obsolescence factor (ROF) as discussed in the reference manual *Valuing Machinery & Equipment: The Fundamentals of Appraising* (3d edition, p. 80):

> “ A remaining obsolescence factor (ROF) or an aggregate obsolescence factor can be quantified by comparison between the results obtained through the use of a cost indicator of value prior to the deduction for obsolescence and results obtained through the use of the sales comparison approach. This is a market derived obsolescence analysis.

I've discussed this analysis of market derived obsolescence with many appraisers over the years and one thing we all agree upon is that one factor in the analysis is what's commonly called “discount for ownership.” It's a clunky name for a very simple concept that everyone is familiar with: once you drive a car off the dealership lot, it's no longer “new” and cannot be sold for the “new” price you just paid for it.

at Machinery & Equipment Co., Inc, regarding an appraisal of food processing equipment for a property tax appeal and how the discount for ownership might be most appropriately applied in the context of the remaining obsolescence factor.

This post draws heavily on Dominic's experience and knowledge and I appreciate him being willing to share it with our readers as a guest blog. I hope you appreciate the following discussion from Dominic of how discount for ownership affects equipment valuation.

Depreciation "Rule of Thumb"

When I started selling equipment 20+ years ago, the "rule of thumb" for the cost of used equipment in the market was 50% of new. That "rule of thumb" was often used across the board to factor values of used equipment. Things have changed.

In today's market, half of new is may still be the cost for equipment that is at the top end and in like new condition, but late model, unused equipment rarely sells for as much as might be expected according to this dated "rule of thumb."

Because that rule is no longer useful, many appraisers instead come up with values based on the "cost less depreciation" approach or tools such as a present worth table. While these tools are somewhat helpful, they most often do not come up with realistic values for late model equipment. The most accurate way to come up with fair market values are by finding actual sales that have occurred in the used equipment marketplace. These values can be used to reconcile any values calculated with other methods such as cost approach, indexes or even a general "rule of thumb."

In researching the used equipment market, it might be helpful to understand the two big technological changes that are present day drivers in the used equipment market: the internet and computerized controllers. These factors not only made the 50% "rule of thumb" obsolete, but also demand that equipment values be reconciled to the market whenever possible.

Internet Used Equipment Market

of that machinery.

The Internet, however, allows anyone with surplus equipment and a computer to market and sell used equipment. Simple supply and demand requires that used equipment dealers adjust their pricing structure in order to compete in today's market.

Computerized Equipment Parts

Another factor is advancements in technology, which often make the computerized controllers and related parts of certain equipment obsolete prior to the typical life expectancy of the main piece of equipment. Since most manufacturers are looking for better control of their equipment, they often insist on updated controllers. These computerized parts are often tens of thousands of dollars and will take value away from the main equipment at a faster rate than was seen with older technology.

Traditional Equipment Market Factors

Two other traditional factors also play into the current market situation.

Customers looking to buy used equipment are often smaller companies with limited funds. As small companies have for decades, they will hunt and search for the best deal. In the current market, with its better exposure of used machinery, they can often gain leverage with pricing by having multiple items to consider.

The lack of services for used equipment is also nothing new. Used equipment sales have rarely included the services that can be included when buying from an OEM, such as installation, training, services, parts and warranties, although prior to internet markets, local dealers might have provided some of those services to their regular customers. Today, any used equipment dealers who do provide these services do so at a high cost and these additional costs cannot be attributed to the fair market value of the equipment. Basically, the lack of services negatively impacts the value of used equipment and is a considerable determining factor for equipment buyers.

Variability of Equipment Markets

One of the main reasons for this is an excellent industry network wherein equipment can be bought & sold directly to others in the same industry. Because these are private party sales, the used equipment dealers/brokers are removed from the equation, and therefore, higher percentages of new can be realized from the sale within their industry.

Discount for Ownership in the Internet Age

To summarize, the internet has completely refocused the used equipment market. With more sellers and more supply available than ever before, buyers have become more concerned about price and less concerned about dealer service. The end result is that when equipment goes from a status of **new** to **used** there's now usually at least an 50% immediate drop in value. This *discount for ownership* is rarely less than 50% and can often be more; the actual percentage of course depends upon the type of used equipment.

More importantly, while this *discount for ownership* is automatically included when the appraiser uses the Sale Comparison approach, the appraiser using the Cost Approach must apply this factor as a remaining obsolescence factor (as discussed in the ASA's *Valuing Machinery and Equipment,* p. 80) to arrive at credible assignment results:

> A remaining obsolescence factor (ROF) or an aggregate obsolescence factor can be quantified by comparison between the results obtained through the use of a cost indicator of value prior to the deduction for obsolescence and results obtained through the use of the sales comparison approach. This is a market derived obsolescence analysis.

Dominic A. Piazza, CMEA
*Director of Sale*s
Machinery & Equipment Co., Inc.

Tagged With: equipment appraisal process, equipment appraisal terms, property tax appeal

I spent 53 minutes in Amazon Go and saw the future of retail

By Matt McFarland, CNN Business

Updated 5:39 PM ET, Wed October 3, 2018

Seattle (CNN Business) — If you want to glimpse the future of retail, check out an Amazon Go store.

They're sleek and modern, with a minimalist vibe. Black merchandise racks. Wood veneer. Polished concrete. Pop music plays softly in the background; cameras nestled in the ceiling monitor your every move as you wander the aisles.

"Big deal," you may be thinking. "Sounds like Whole Foods." True. But you won't see a single cashier, cash register, or self-service checkout stand. Such things have no place in the future. You simply walk in, grab what you need, and go. Amazon bills your credit card as you pass through the turnstile on your way out. Moments later, an app in your phone provides a receipt detailing what you've bought, what you paid, and even how long you spent inside.

as many as 3,000 others by 2021.

Despite the small presence, the stores, which rely upon sophisticated image recognition software and artificial intelligence, promise to upend the retail experience.

The Amazon Go storefront. Inside, you won't see a single cashier, cash register, or self-service checkout stand.

"Amazon Go is the disruptor that essentially replaces everything that is used to transact," said Mark Cohen, who spent decades in the retail sector before leading retail studies at Columbia Business School.

Imagine a world where you never wait in line, or even open your wallet. A world where stores know so much about you that they recommend products and lead you right to them. A world where shoplifting, which according to the National Retail Federation drains some $47 billion from retailers nationwide each year, is all but impossible.

I know, because I tried.

Time to Go

Before you can enter Amazon Go, you must install an app, because there's always an app these days, and log in with your Amazon account. As you pass through the gleaming turnstile at the door, you scan your personalized barcode from the app.

Hundreds of cameras track your every move, keeping tabs on everything you put in your basket. The cameras create a three-dimensional representation of you that looks a bit like the monochromatic and slightly blurry videos made by a Microsoft Kinect. Amazon uses these images to know that it was you, not the guy next to you, who grabbed that bottle of seltzer.

Amazon's software is sophisticated enough to discern from the labels and packaging that you chose black cherry, not lime, seltzer. Packaged foods like sandwiches, wraps, and salads bear a unique pattern of circles and diamonds that works a bit like a QR code. The software reads that code and knows you selected a turkey wrap. Weight sensors on each shelf know when you've removed something, and when you've changed your mind and put it back.

Amazon Go's innovative grocery concept store. The first Go store opened in January.

Amazon won't say much more than that about how the Go store works because most of the technology is proprietary. You aren't charged for anything until you've left the store, and if Amazon gets something wrong, it will refund your money.

You'd think such a system would be easy to fool. Nope. Before grabbing my water and wrap, I'd spent nearly an hour wandering around with Amazon execs, pointing at things and asking questions. Not exactly typical shopping behavior, and I thought it might confuse the AI. I also covered those circles and diamonds with my hand as I took the wrap from the shelf, and stood with my back to the cooler and reached backward to get my water.

Thinking I may have found the system's weaknesses, I left the store. A minute passed, and then another, with no receipt. I started to wonder how you I might go back to pay for something in a store with no cashiers or customer service desk. A moment later, I glanced at the Amazon Go app and saw a charge for $11.68 appear. The receipt also told me that I'd spent 53 minutes and 33 seconds in the store — information Amazon says it records simply because it makes trips more fun.

Amazon gets physical

Amazon started working on retail stores five years ago, with an eye toward eliminating consumer pain points. "One of the things that kept coming back was people don't like waiting in lines," said Dilip Kumar, Amazon vice president

That may be true, but research shows that people who wait in line tend to buy more stuff to offset the time lost standing around waiting to pay for it all. And there's some evidence that long lines provide social proof that may actually attract more customers — that is, people tend to think, "Wow, that place must be great if all those people are standing in line."

But all of this research compares consumer attitudes to standing in a short line versus a long line. No one has examined how consumers behave when they don't have to wait at all.

The first Go store opened in January. Amazon declined to say how many transactions it has made, but did say mischarges are rare. It has no immediate plans to introduce the technology at Whole Foods, and would not say whether it would sell it to other retailers.

But there's certainly an appetite for it elsewhere in the retail sector, which would save vast sums on labor costs — research has shown that as many as 7.5 million retail jobs are at risk of automation in the next decade alone — while selling you more stuff.

Pascal Finette, the chair of entrepreneurship and open innovation at Singularity University, sees a day when stores like Amazon Go and others that use similar technology make specific recommendations. "Hey Matt, we know you love to grill, and we know you like steak. We've got a special on ribeyes right now!"

The AI might recommend side dishes — a green salad with blue cheese dressing, or a bag of frozen fries. Couple that technology with augmented reality and stores could provide directions to the butcher counter, and then to the steak sauce. At least one startup is already developing in-store directions for an Amazon Go-like store. Silicon Valley startup Zippin is already developing technology that can guide customers to any item in stock.

Automated pricing, already used for things like airline tickets, could come to retailers as well. A store's AI might see you, a loyal customer, standing in front of the yogurt case or trying on winter coats and offer a 15 percent discount. Or it might charge you more, because it knows you're in a rush and live in an affluent zip code. Prices may also fluctuate in real time based on demand, just like ridesharing.

Amazon isn't alone in making Go technology happen. Zippin packed similar tech into a tiny convenience store in its hometown. The startup has no intention of opening its own grocery stores; Zippin opened the store in August only to prove the tech works. Zippin hopes to sell it to other retailers.

"In 10 to 15 years, we should expect this to be the norm," said Zippin CEO Krishna Motukuri. "Every single store will become completely checkout free."

But independent experts say it's hard to predict exactly when the technology will go mainstream. Cohen doesn't expect the technology will be economically viable for many businesses in the very near future. It could take a generation. Jerome Glenn, CEO of the futurist Millennium Project, compares Go technology to Internet protocols, which emerged in the 1960s, but weren't common until the 1990s.

Zippin sees small stores and specialty retailers embracing the tech first because they require less retrofitting and their smaller inventories are easier for the technology to manage. Plus, outfitting a full-size supermarket or big-box retailer would cost hundreds of thousands of dollars.

Ultimately, these installation costs should be offset by lower long-term labor costs, but Zippin isn't rushing to launch in big stores.

Beyond saving money on labor, Motukuri says, retailers could boost profits. A highly automated system could make ordering and restocking a breeze because cameras will track inventory in real-time. Eliminating cash registers will provide more space for inventory, he said, or allow retailers to rent smaller spaces. And all that customer data will allow retailers to target them with offers, discounts, and other enticements.

"We are on the verge of one of the biggest transformations in retail since the early days of e-commerce, and retailers know they need to get on board or miss the wave," Motukuri said.

Customers will also have to get used to stores knowing more about them, and decide if they're comfortable with trading privacy for convenience.

"Privacy questions overhang all of these new wave technologies," Cohen said. "My guess is people won't care unless they get hacked."

Glenn expects retailers to collect even more data as they eventually turn to biometrics to identify people as they enter, and to charge their credit cards when they exit. The idea of scanning a phone on a turnstile will seem quaint. You'll simply nod your head as you enter to agree to the terms and conditions and create a store account.

"People want more pleasure with less work. If a store can do that, it'll succeed," he said.

Then every time you enter, you'll hear a custom greeting, and personalized suggestions. He can see retailers partnering with insurance companies, for example, to help you make healthy choices. Was your cholesterol high at your last check-up? The store might recommend sports attire, or healthy food items. Doctor says you really ought to cut down on your drinking? That welcoming voice might mention deals on tea or flavored waters. And if hearing a voice isn't your thing, customers wearing augmented reality contact lenses might see recommendations.

Stores that don't offer the ease of checkout-free shopping and personalized tips customers want may struggle to compete, Glenn said.

Some are already trying to catch up. Amazon's rival Walmart announced a partnership with Microsoft in July. The companies released few details, but a Reuters report earlier this summer said they plan to build a competitor to Amazon Go.

That shouldn't be surprising. Even a retailer as big as Walmart has to face a stark choice: Adapt to the coming future of retail — or risk not surviving it.

As its hotly-contested and widely-publicized search for a second headquarters draws to a close, CNN Business is taking a top-to-bottom look at Amazon's present — and what it means to our future in its series, The United States of Amazon.

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FMI 2017

Year in Review

Digital Transformation Takes Food Retail By Storm in 2017

By: Pat Walsh, Chief Business Development Officer, and Vice President of Supply Chain, Food Marketing Institute

The digitally engaged food shopper will fundamentally change the way food is bought and sold, more so than driverless trucks or delivery drones. The needs and behaviors of these shoppers will require food retailers and manufacturers to reinvent their strategies, business models and capabilities from the ground up.

The grocery industry is at a critical tipping point. In January 2017, Nielsen and FMI embarked on a multi-year initiative to explore this unprecedented digital transformation. Initial findings from FMI's The ***Digitally Engaged Food Shopper*** study demonstrated that shoppers are already highly engaged with purchasing food online; however, retailers and manufacturers have yet to develop profitable e-commerce strategies that meet today's consumer expectations.

Here are key findings of *The Digitally Engaged Food Shopper* report:

- **Multi-channel shopping**: More shoppers are buying more of their groceries across channels.
- **Digital Experimentation**: Grocery retailers and manufacturers are meaningfully experimenting with business models and technologies to find their way online. However, the road to success has not been paved.
- **Grocery Saturation**: Grocery shopping will reach digital maturity and saturation faster than other industries before, such as publishing or banking.
- **Center Store Migration**: Center store categories are already migrating online and this migration is expected to continue.
- **Young and Digital**: Younger, newer and more engaged digital shoppers adopt grocery related digital technologies more quickly and will hasten the expansion of digital grocery shopping further.
- **Broad Transformation**: This digital transformation also extends itself into the areas of asset protection, cyber security, etc.

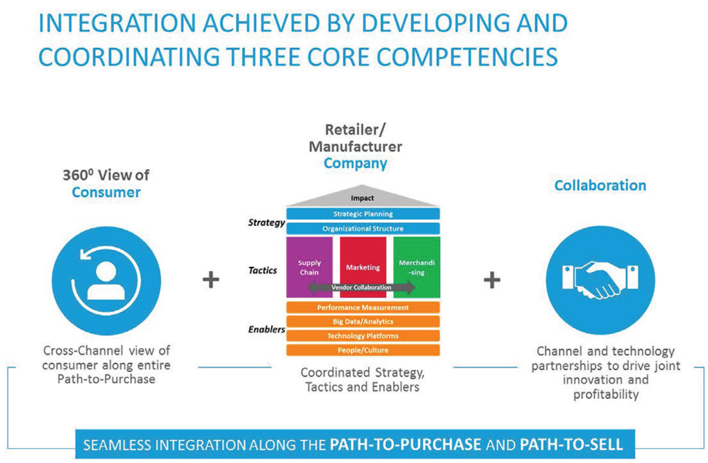
Within the next ten years, according to the study, online food shopping will reach saturation in the United States far faster than any other industry. And, center store products will likely shift to online shopping models faster than other departments in store.

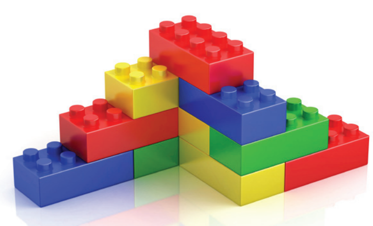
Consequently, retailers will have to fundamentally reconfigure the layout and role of brick-and-mortar stores to meet the expectations of the digitally engaged food shopper. As with any change, the path forward begins with sound strategy. FMI is poised to provide companies and trading partners the tools to address this strategic challenge and opportunity through an online ***assessment tool***.

The assessment will evaluate a store's current digital capabilities, and help shape strategies your company can use to implement a digital transformation.

For more on *The Digitally Engaged Food Shopper*, visit ***FMI.org/DigitalShopper***.

THE PATH TO DIGITAL TRANSFORMATION AND COLLABORATION





AMG STRATEGIC ADVISORS

The Tipping Point for Center Store

HOT TOPIC REPORT

March 2013

The 1930s marked the advent of the traditional grocery store format most familiar to us today. Designed for self-serve access and complete with perishable and packaged goods, categorized aisles and spacious parking lots, it was the epitome of convenience. The center of the grocery store was traditionally the heartbeat of the supermarket. Most everyday household items consumers needed to replenish were found there - ketchup, mayonnaise, soft drinks, laundry products, etc.

Surprisingly, relatively little has changed in the center store formula in over eight decades; yet, much has changed about the shopper and channel landscapes. Channel options have expanded, shopper demographics have changed and, with that, U.S. shopper behavior has fundamentally changed. Shoppers now have more choices than ever. Most shoppers today shop in five or more channels.

Center store "leakage" to other formats has become a key issue for the entire grocery industry, in part because channel lines are blurring. Mass stores offer an increasingly robust assortment of key center-of-store options; drug stores and dollar stores continue to add center store food and beverage items; club stores are offering more affordable meal solutions.

Summary

Once the "center" of the grocery shopping experience, center store has lost its zing. Center store traffic and revenue are declining. Understanding the variety of reasons for center store leakage are key to developing strategies to win shoppers back. While some retailers and manufacturers are beginning to address center store leakage, the majority of the industry is not responding swiftly enough and losing revenue as a result. The time has come for a sea change in center store.

Center Store is generally defined as: Packaged Food, Beverages, Health & Beauty Care, General Merchandise, and Home Care

Many traditional retailers have attempted to reinvent themselves and stay relevant to shoppers by revamping their perimeters – creating a much more dynamic shopping experience and capitalizing on the natural and health and wellness trends. But while this fascination with the perimeter has been rewarded by increased traffic and consumer relevancy, it also has eaten into center-of-store categories and diluted overall store profitability.

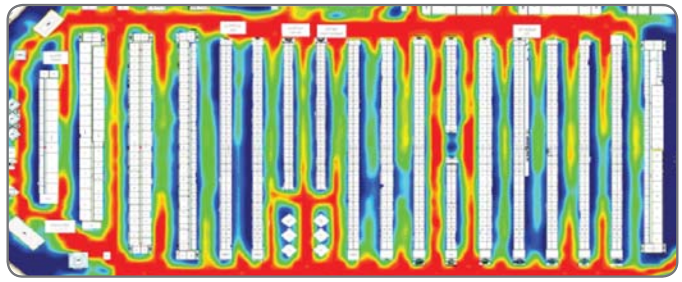
Lost Trips & Lost Sales

Market indicators point to continued pressure on center store categories, and center store sales continue their decline. According to Nielsen estimates, grocery retailer center store unit sales are down 3.4% since 2008. The grocery channel has lost trips that translate to $23 billion in lost sales and nearly $8 billion in lost gross profit dollar sales over the last five years. Supermarket space for dry grocery and HBC products has declined by 2% over the past two years while perimeter departments like meat and produce have increased.

Several retailers are getting serious about developing new strategies to revitalize center store traffic, sales and profit. Some have converted to every day low pricing while others have implemented major overhauls to enhance and differentiate the shopping experience and protect margins. Wegman's, for example, now uses the center store as an area to sell upscale non-food items; Trader Joe's moved to an all store brand format while limiting assortment; Whole Foods has focused on "owning" the organic/natural consumer; and Target has capitalized on the store-within-a- store concept.

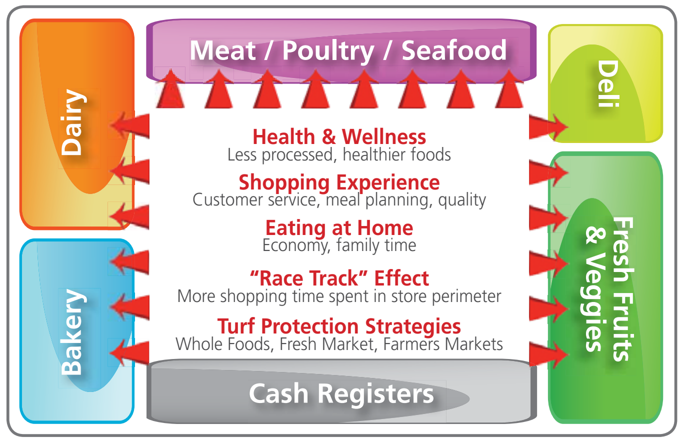
With center store contributing upward of 70% to 80% to the bottom line profit for grocery retailers, there is a strong incentive for retailers and manufacturers to invest time and resources to address center store shrinkage.

Most traffic occurs in the perimeter of the store



Red = Highest traffic areas

Factors driving perimeter growth



Key Trends Influencing Center Store Performance

Fundamental Changes in Shopper Behavior

Shoppers spend most of their actual shopping time in the perimeter of the store. According to a Video Mining™ study of over two million shopping trips, the average shopping trip is just under 13 minutes, with 39% of the trip spent shopping in the perimeter and only 18% occurring in center store. The remaining 44% of shopper time is spent navigating the store and waiting in checkout lines. This suggests a couple of key questions: How can retailers convert navigation time to shopping time, and how can they balance the perimeter and center store shopping time?

Generational Shifts

Millennials (ages 18-29) are the key shopper segment to consider when it comes to center store reinvention. According to Acosta's Fall 2012 *The Why? Behind The*

The Tipping Point for Center Store

Buy report, 21% of Millennials indicated an increase in total household income over the past year. Millennials are becoming a bigger part of the spending picture, and they have major life events like buying homes and starting families still ahead of them.

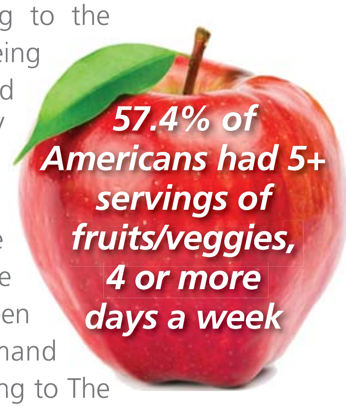
So what motivates the Millennial shopper? They live fast-paced lives and prefer ready-to-eat meal solutions. Younger shoppers are shopping the perimeter fresh departments for "what's for dinner tonight" solutions. They are not stockpiling inventory. Millennials are environmentally conscious, health conscious and concerned about where their food comes from. Product transparency is important to them, and they consider product features and benefits – not just low price – when defining value.

Millennials are heavily influenced by word-of-mouth suggestions and endorsements, and they enthusiastically embrace technology and social media. To be successful, the CPG industry will need to embrace this new breed of shopper and create a two-way conversation with them, looking to them for new offering inspiration and early adoption.

Millennial attitudes are largely about the experience in store:

Health & Wellness Focus

Despite frugal shopping behaviors that linger from the recession, shoppers are willing to spend more on healthier products. According to the January 2012 Gallup Well Being Index, 57.4% of Americans had five or more servings of fruits/vegetables four or more days a week, increasing from 55.3% in 2009. Additionally, the rise of dietary-focused products like gluten free and low salt has been a response to shopper demand for healthier options. According to The Hartman Group's *Ideas In Food 2013*, the coming year will be focused on cleaner, fresher and unprocessed meals. Manufacturers are expected to take gluten free to the next level, even convenience stores like 7-Eleven stores are aiming for 20% of sales to be generated from fresh foods by 2015.



Cultural Influences

The U.S. Hispanic market is the fastest growing ethnic group in the U.S. and the group with the greatest buying power. Hispanics spend more on food than the general U.S. population, with a higher average monthly food budget and bigger spends on both routine and stock-up trips. Their buying power was $1 trillion in 2010 and is estimated to grow to $1.5 trillion by 2015.

We studied the top 20 supermarket categories and uncovered a key fact – the majority of household penetration growth across 17 of the top 20 categories was driven by new Hispanic households entering the category. In some categories as much as 70% of household penetration growth was from Hispanic households.

So what drives the Hispanic shopper? In a word: family. Meal times are important social interactions and U.S. Hispanics cook more frequently at home than the general population. What makes the Hispanic shopper different? They make an effort to eat healthy foods, including organic. Hispanics are social shoppers who tend to shop as a group, with family members and even friends. They

The Food Retailing Industry SPEAKS 2018

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For questions or comments, please contact:

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Food Marketing Institute proudly advocates on behalf of the food retail industry, which employs nearly 5 million workers and represents a combined annual sales volume of almost $800 billion. FMI member companies operate nearly 33,000 retail food stores and 12,000 pharmacies. FMI membership includes the entire spectrum of food retail venues; single owner grocery stores, large multi-store supermarket chains, pharmacies, online and mixed retail stores. Through programs in public affairs, food safety, research, education, health and wellness and industry relations, FMI offers resources and provides valuable benefits to almost 1,000 food retail and wholesale member companies and serves 85 international retail member companies. In addition, FMI has almost 500 associate member companies that provide products and services to the food retail industry. For more information, visit www.fmi.org and for information regarding the FMI Foundation, visit www.fmifoundation.org.

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The Food Retailing Industry

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Competitive Environment: Disruption from Physical Stores to Online

Food retailers have become increasingly savvy in competing with a wider array of rivals. Conventional supermarkets and supercenters still represent the most impactful competition, but formats from club stores to limited assortment stores are playing big competitive roles. Fresh foods – from deli to produce – is expected to gain more space allocation to serve as a competitive differentiator. Meanwhile, food retailers are experimenting to boost competitiveness on the e-commerce front. They are moving ahead with e-commerce strategies, even as they recognize the need to further advance their sophistication levels in this area. New to this year's *Speaks* report is an in-depth look at how food retailers are evolving in this new e-commerce environment.

Online Sales, Apps Transforming Shopping Behaviors

Many food retailers are expanding into online sales and have expectations for growth in this area. Many also expect that consumers' use of grocery shopping/price comparison apps will put further pressure on margins. Despite challenges in the changing ways that customers are shopping, some food retailers optimistically expect basket sizes will increase. See Detailed Tables 3 and 4.

2018 predictions on a scale 1-10, where 10 is the highest agreement with the statement	Top 3 box (8, 9 or 10)	Average
My company's online sales will increase	40%	5.7
Price comparison applications will further pressure margins	40%	6.6
My company's basket size will increase	25%	5.7

More on Shopping Behaviors: Consumer shopping is fragmented across multiple channels, with customers visiting an average of four different retail banners a month, according to FMI's *U.S. Grocery Shopper Trends 2018*. In addition, this consumer data shows a strong progression in shopper online grocery purchases along with the use of general grocery shopping apps (35 percent) and the apps of the stores they shop (22 percent).

Supermarkets Still Main Rivals: Despite widespread competition from an array of retail formats, food retailers still eye conventional supermarkets and supercenters as the competitive formats having the biggest impact on sales and profits. This is followed by natural/organic stores, club stores and limited assortment stores. The latter format has received more focus recently due to new entries and expansions, but it's still seen as more of a niche competitor than some of the other formats. Online sales by nonfood retailers or brick and mortar competitors are having a moderate impact on the sales and profits of food retailers who responded. Regardless of the specific competitive format, retailers see overall competition, from traditional to online, as one of the biggest challenges impacting sales and profits negatively, according to the *Speaks* Food Retail Pulse. See Detailed Table 8.

Impact of format on sales and profits on a scale 1-10, where 10 is the highest agreement with the statement	Top 3 box (8, 9 or 10)	Average
Conventional supermarkets	44%	6.5
Supercenters	38%	6.3
Natural/organic stores	24%	5.2
Club stores	19%	4.9
Limited assortment stores	16%	4.2
Online sales by nonfood retailers	14%	4.4
Online sales by brick & mortar competitors	13%	4.1

Fresh Foods, Online Fulfillment to Gain Space Allocation

Decisions on retail space allocations are good indicators of growth directions. Not surprisingly, fresh foods segments are being tapped for bigger space allocations in the next two years, given that shoppers continue to gravitate towards these categories. Some 89 percent of responding companies expect space increases for deli/fresh prepared grab-and-go selections, 68 percent for fresh produce, and 67 percent for deli/fresh prepared self-serve bars/buffets. Moreover, the growth story is not just about fresh. Some 71 percent of responding food retailers see boosts in space for online fulfillment activities, as many strive to address the growing demand. See Detailed Table 11.

In the next two years, how do you expect the following will change? Space allocation to:	Increase	Same	Decrease	Don't have, don't plan
Deli/fresh prepared grab-and-go selection	89%	10%	0%	1%
Online fulfillment	71%	10%	0%	18%
Fresh produce	68%	31%	1%	0%
Deli/fresh prepared self-serve bars/buffets	67%	19%	1%	13%
Private brands	64%	28%	1%	7%
Deli/fresh prepared chef made-to-order selection	63%	15%	2%	20%
Fresh seafood	49%	43%	1%	7%
Fresh meat	35%	52%	11%	1%
In-store bakery	30%	56%	9%	6%
Dairy	26%	69%	5%	0%
GM&HBC	18%	61%	18%	2%
Frozen	16%	73%	11%	0%
Commercial baked goods	9%	64%	25%	2%
Center store	7%	43%	49%	1%

89%

Expect to increase their deli grab-and-go selection

More SKUs for Local, Organic
The vast majority of food retailers expect to continue offering more products that are locally sourced and/or organic, as well as more items for managing health and wellness. This lines up with the results of the *Speaks* Food Retail Pulse, which found that both a health and wellness proposition and the food as medicine trend are top factors leading to positive impacts on sales and profits. See Detailed Table 12.

In the next two years, how do you expect the following will change? SKU allocation to:	Increase	Same	Decrease	Don't have, don't plan
Local sourcing	84%	16%	0%	0%
Organic	83%	16%	0%	1%
Health and wellness	72%	26%	0%	1%
Private brands	64%	29%	2%	5%

Bigger Investments for Private Brands: Food retailer's private brands have experienced higher profiles in recent years, as shoppers embrace increasing levels of differentiation and innovation. Food retailers plan to grow investments in this business segment, with about two-thirds of responding companies forecasting bigger space and SKU allocations in the next two years.

More on Private Brands: Private brands influences 46 percent of consumers in their choice of where to shop, according to IRI data in FMI's *The Power of Private Brands.*

Surviving the Brave New World of Food Retailing

A Roadmap to Relevance for the Future for Food Retailers

Kurt Salmon
Part of Accenture Strategy

Coca-Cola
RETAILING RESEARCH COUNCIL
Research by Retailers • North America

Foreword

Relevance or Extinction: Survival of Only the Fittest

DISRUPTIVE FORCES ARE FOREVER CHANGING THE WORLD OF RETAIL.

Today's shoppers—armed with new technologies and shifting personal needs and aspirations—are seeking entirely new solutions from the stores they shop. As a result, traditional strengths, such as location or product variety, are declining in importance, while the value of experiences and connections is rising. The very definitions of convenience and value are evolving.

Through the years, reports from the Coca-Cola Retailing Research Council have identified specific challenges facing the industry and offered equally specific solutions or approaches. The Council members chose this very different topic because today's challenges are so very different from those of the past.

The Council members strongly believe this report will serve as a clarion call on the enormity and impact these emerging challenges will have on every company. In addition, the report lays out some of the difficult decisions companies need to make to maintain relevance with the consumer of the near future.

No report of this nature can possibly identify the specific challenges for each and every company, but we believe this document can provide sufficient examples of this new landscape and be a catalyst for discussion and action inside any company. Readers can use this material—including a self-diagnostic tool—to determine how to best reorient each company for this new era.

Keep in mind that every company is at a different point in this journey and everyone is moving at a different speed. But the Council believes everyone must be on this journey or risk becoming irrelevant with the shoppers of tomorrow. This report can support you in this vital effort.

Executive Summary

The pace of change is accelerating in food retail just as it has in other sectors.

The pace of change that is disrupting food retail is exponential—rather than linear—and reflects a combination of mind-blowing technological innovation, shifting consumer preferences and an increasingly networked global population. The confluence of these change factors has had dramatic impacts on other industries in the past: The introduction of ATMs forced the banking industry to question the role of the bank branch, the introduction of the VCR had the film industry wondering if movie theaters would survive and the introduction of the mobile phone made the telecommunications industry realize that landline telephones are a thing of the past. And today, the introduction of online and mobile commerce has both consumers and retailers questioning the role and future of the traditional retail store.

The fate of other once-dominant retail formats —including shopping malls, video, music and book stores, and big-box retailers—now threatens to befall the traditional supermarket. The days when the grocer could take for granted that the consumer's entire weekly "shopping list" would get checked off as she navigated the aisles are long gone. Today, it's not just where the shopping list might get fulfilled that has changed. It is the very idea of when, how and where the wants and needs for food originate. How we get our food connects to any number of lifestyle factors; is influenced or controlled by any number of players competing for share of mind, wallet and stomach; and can be filled through any number of retail touchpoints.

Just as the decline of big-box retailing was first signaled by the limitless choice and transparency of e-commerce, food retailing is being challenged most aggressively from the outside. New consumer preferences are being satisfied by new entrants and factors that are eroding the control of the shopping journey that supermarkets once enjoyed, including:

» **New competitors** for share of stomach, who are intercepting the traditional supermarket destination consumer. Examples include Whole Foods, Trader Joe's, Aldi, drug stores and even restaurants, which, for the first time, captured more consumer spend than grocery stores in 2015 (Commerce Department, April 2015).

» **New intermediaries,** who are inserting themselves into the shopping experience between the consumer and the supermarket aisle through demand generation, innovative marketing and home delivery models. Examples include Blue Apron, Plated, Amazon and Ocado.

» **Market disintermediation,** where consumers are more directly engaged with individual brands and local or niche players. Examples include Kellogg's, Instacart, Harry's shaving systems and local farmers markets.

HOW WILL FOOD RETAILERS STAY RELEVANT?

The key to surviving and thriving in this brave new world of food retailing is embracing and excelling in what we call the **Third Dimension**. While efficiency and scale are important, it is not enough for food retailers to look to vertical integration in the value chain or to expand horizontally into diversified formats and channels. The third dimension is the consumer's journey, a journey that starts well before—and

2. Industry Impacts Outlook

What this means to today's traditional food retailers

When we look at the forces threatening the supermarket as we know it today, we see a steady loss of the control and dominance that the supermarket model once wielded. In the last century, the dry grocer absorbed the green grocer, the butcher and the home delivery services of milk, eggs and bread into a single box. As a result, the supermarket evolved from a counter service to a self-service all-in-one model and became the dominant center of the food shopping journey, with some key characteristics, including:

» **Location and exclusivity—**The supermarket often had the advantage of key location and had everything the consumer needed, creating a deterrent for shopping for food anywhere else.

» **Consumers did the heavy lifting, literally—**With stores laid out like warehouses, the consumer handled the logistics of finding, picking, loading and unloading their own products no fewer than seven times from store shelf to kitchen shelf (shelf-cart-checkout-cart-car-kitchen-cupboard).

» **Controlled experience—**With the exception of the weekly print circular, the supermarket controlled every aspect of the predominantly store-centric customer experience. From signage and product merchandising to customer service and the music piped in overhead, the entire customer experience happened within the store.

The forces impacting traditional food retailers today are thoroughly undoing these elements of control. Exclusivity in meeting the consumer's food shopping needs is being eaten away on all sides by every imaginable retail format and channel. As many other big-box formats have found, consumers are losing patience with shopping the traditional large-footprint "grocery," whose value proposition is based exclusively on having a large selection of products in the center store. And in the increasingly connected, networked and social world that consumers now inhabit, the shopping experience goes far beyond the four walls of the store—further decreasing the food retailer's ability to orchestrate and influence the overall customer experience.

These new realities of the food shopping experience are here—as evidenced in a recent Kurt Salmon study which revealed that over 67% of respondents already use the internet for grocery shopping research and 25% are already ordering grocery products online.

We expect that the once-dominant value proposition of the traditional supermarket will be impacted significantly by these forces.

Impact 1

LOSS OF MONOPOLY ON LOCATION AND EXCLUSIVITY

As consumers' food retail options continue to expand, retailers who operate under the traditional food retailing models will lose share

- Twenty-one percent of respondents do not shop conventional supermarkets for perishables. As consumers are shopping multiple channels for food, the conventional supermarket is increasingly falling out of the consideration set.
- Forty-four percent of consumers do not even include a traditional grocery store in their consideration set for nonperishable grocery purchases (Kurt Salmon survey). The dry grocery categories that were the original anchor for supermarkets almost a century ago are today the most likely product purchases shoppers are migrating to other formats.

This trend is even further magnified by the general lifestyle shift in preference from packaged food toward fresh—putting additional pressure on the productivity of the center store versus the perimeter.

Shrinking stores demand new cost structures. As food retail footprints continue to shrink thanks to the declining relevance of the center store, traditional grocers are faced with oversized real estate and new overhead implications.

- According to Planet Retail, small-box stores are some of the fastest-growing banners, with their sales projected to hit combined annual growth rates of 17.8% for Dollar General Market, 14% for 7-Eleven and 9.4% for Aldi between 2013 and 2018.
- So it's no surprise that the average store size is expected to shrink from 25,500 square feet in 2013 to 23,900 square feet by 2018.

Impact 2
DEMAND FOR ONLINE GROCERY OPTIONS CONTINUES TO INCREASE

Consumers will expect retailers to do the heavy lifting and make it easier for consumers to find, select, purchase and transfer products from the store shelf to the kitchen shelf

The demand for online grocery is there. As consumers become more and more accustomed to pervasive connectivity in their day-to-day life—through smartphones, networked homes and digital assistants—they will both expect and embrace a digitally integrated in-store and out-of-store shopping experience. Our research shows that 40% of consumers shop regularly on their mobile devices today, and grocery is one of the top five categories shopped.

Even though food is the laggard when it comes to e-commerce, and its penetration is still under 2% of revenue, there is plenty of latent demand for online grocery:

- Fourteen percent of our survey respondents report some online grocery shopping (although 40% of respondents use Amazon Prime).
- Twice as many shop for apparel on mobile as for food.
- Over 50% of our survey respondents feel same-day delivery is very important for grocery—more than for any other category.
- Thirty-two percent of our survey respondents bought something grocery-related online.

Amazon will change everything. Even though full assortment grocery commands a large share of food e-commerce dollars currently, Amazon and other nontraditional players are getting more than 80% of the trips (brick meets click). And Amazon's investments make it clear the company is going hard after the dollar share too.

- Amazon is currently capturing about half of the 2% of grocery spending online. But Amazon is investing heavily to change consumers' food shopping habits:

one or two offerings predominantly focused on "green" or private brands. Noticeably absent are any national powerhouse brands. Most locations also have a full-service kitchen and offer cooking and wine classes in their culinary school as well as catering services. The chain has nine locations, all in Texas, and because of these and other design-thinking strategies, Central Market has garnered numerous awards, including "Outstanding Specialty Food Retailer" from *Specialty Food Magazine*.

RETAILERS' RESPONSE: *Food retailers should embrace the concept of design thinking to continuously innovate their businesses to better meet and anticipate changing consumer needs, desires and preferences. This must include the willingness and permission to continuously test, fail and learn, which requires executive-level sponsorship.*

Fluid value propositions need flexible operating models

Consumers have multiple needs that may slot them into different consumer segments as their life stages change. And the needs of consumer segments are always evolving as influencers, such as emerging technology, impact how we live our lives. Yet value propositions must continuously cater to a specific customer experience that aligns with the reasons a customer would choose to travel—or navigate online—to a specific food retailer's store. As a result, success through customer centricity inherently requires simultaneous deployment of potentially multiple value propositions as well as the rapid evolution of the means of effective delivery on those value propositions.

Only through continuous refinement of these value propositions can retailers ensure that they are meaningful and relevant to the segments they wish to attract and retain. To do this, food retailers should be acting on the insights derived from customer data and design thinking. Yet a constantly evolving value proposition requires a nimble, adaptable operating model that can support and effectively deliver on those value propositions.

Food retailers should be asking themselves if their current operating models can support an evolving value proposition. For example, some traditional grocers may have expanded their footprint and increased square footage over time to serve the needs of "one-stop-shop" consumers. But now they are seeing a shift in their consumers' needs (e.g., curated meals, prepared foods, etc.). Those retailers who are

Amazon initially sold only books. And not just some books, but such a broad assortment that no physical retail location could contain them. The selling of every book from "A to Z" is in fact why Jeff Bezos named his startup Amazon—with a line in the logo that connects the A and Z. Obviously, Amazon has since extended its "A to Z" value proposition well beyond books such that Amazon is sure to have almost any item a consumer may be seeking.

At the same time Amazon established its "A to Z" value proposition, it also pursued other value propositions, namely competitive pricing and fast and easy fulfillment. The latter, in particular, evolved from Amazon's one-click checkout in 2000 to Amazon Prime in 2005 to Amazon Dash and Amazon Echo/Alexa in 2015.

Amazon's success as the largest U.S. e-commerce retailer (albeit with modest profitability) is in large part due to this simultaneous pursuit of multiple universal value propositions (e.g., assortment, price, speed) and (r)evolutionary improvements on the delivery of these value propositions over time.

able to refine and adapt their value propositions to address these new needs will thrive. They may do this by repurposing space used for goods no longer in demand or by creating seating areas where customers can eat a prepared meal, observe a cooking demonstration, meet after work for a beer, etc. By doing so, the brick-and-mortar store becomes a destination for more than just buying groceries.

RETAILERS' RESPONSE: *Retailers must take a portfolio approach to selection and delivery on value propositions. Future success may require retailers to be able to simultaneously serve multiple segments that have different needs. Therefore, five- to 10-year roadmaps should include plans for investing in and delivering on multiple value propositions via flexible operating models that allow for "test and learn" and rapid investment or divestment.*

Imperative 2

EMBRACE DIGITAL ENGAGEMENT

Move quickly on e-commerce and build digital capabilities and efficiencies that pervade the entire consumer journey

Food retailers must adapt to the great digital disruption

Consumers' increasing demand for online options means that retailers must consider how they will build or enhance their existing digital platforms. To determine what digital capabilities are required, it is important to understand how the digital disruption evolved.

Digital disruption continues to come in waves, and the disruption that has hit the general retail industry is now impacting food retailers as well.

In one respect, this digital and mobile revolution represents one of the greatest opportunities the retail industry has ever experienced. Its promise includes the ability to connect to more customers on a more personal level and in more meaningful ways than ever before. New digital and mobile capabilities will potentially open new markets, create new business models and increase traffic, conversion and basket size.

In another respect, this explosion of new digital touchpoints and capabilities also presents an unprecedented competitive threat and challenge for food retailers to guide, manage and influence a consumer experience in an environment that is increasingly diverse and changing.

This growing digital opportunity—and increasing challenge of complexity—creates a paradox that food retailers must effectively navigate by responding to multiple cascading waves of digital disruption.

The **first wave** includes online commerce, as grocers seek to add **e-commerce capabilities** to their portfolio and compete with online pure plays such as Amazon Fresh, Ocado and Peapod. North American food retailers should look to the U.K. as a blueprint for the future of online shopping, where online sales have approached 5% of total sales. In Canada and the United States, online grocery sales account for only 1% to 3% of total sales, respectively, according to a report by BMO Capital Markets. U.S. consumers are more than ready for online food commerce; a 2014 Kurt Salmon study revealed that 67% of consumers surveyed had searched for grocery product information online, and 25% had purchased grocery-related products online.

RETAILERS' RESPONSE: *Food retailers will need to build a robust set of e-commerce capabilities to rapidly catch up to retailers who have been growing their capabilities for many years. This will include designing a more immersive and interactive online shopping experience, creating and managing a rich portfolio of digital assets, integrating the "shopping cart" across multiple devices, optimizing for mobile, and streamlining the overall checkout process.*

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ABOUT THE COCA-COLA RETAILING RESEARCH COUNCIL OF NORTH AMERICA

The Coca-Cola Retailing Research Council of North America (www.ccrrc.org) conducts studies on issues that help retailers respond to the changing marketplace. The unique value of these studies rests with the fact that retailers define the objective and the scope of each project and "own" the process through the release of the study and dissemination to the broader retail community.

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The Kroger Company/
Harris Teeter

Jonathan Berger
The Consumer Goods Forum

Steven Goddard
WinCo Foods

Steve Junqueiro
Save Mart Supermarkets

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MarketWatch

The global commercial refrigeration equipment market is projected to grow from an estimated USD 33.58 billion in 2018 to USD 45.45 billion by 2023, at a CAGR of 6.2%, from 2018 to 2023

By
Published: Oct 11, 2018 7:00 p.m. ET

NEW YORK, Oct. 11, 2018 /PRNewswire/ -- **The commercial refrigeration equipment market is projected to grow at a CAGR of 6.2% from 2018 to 2023**

Read the full report: https://www.reportlinker.com/p05587816

The global commercial refrigeration equipment market is projected to grow from an estimated USD 33.58 billion in 2018 to USD 45.45 billion by 2023, at a CAGR of 6.2%, from 2018 to 2023. The growth of the market can be attributed to the improving consumer lifestyles and flourishing food and healthcare industries, growing cold chain market, and increasing use of advanced technologies, for instance magnetic refrigeration. Stringent regulations for the use of fluorocarbon refrigerants is a restraint in the market.
The supermarkets & hypermarkets segment is expected to be the fastest-growing application segment of the commercial refrigeration equipment market during the forecast period

The supermarkets & hypermarkets application segment is projected to be the fastest-growing end-use industry of the commercial refrigeration equipment market from 2018 to 2023.Supermarkets and hypermarkets cannot survive without the commercial refrigeration equipment.

It is a necessity of new generation grocery stores to constantly look for and adopt advanced and more efficient commercial refrigeration equipment systems.
The refrigerated display cases segment is expected to be the fastest-growing product type segment of the commercial refrigeration equipment market during the forecast period

The refrigerated display cases application segment is projected to be the fastest-growing end-use industry of the commercial refrigeration equipment market from 2018 to 2023. Refrigerated display cases are commercial refrigeration equipment used for storing food & beverages at retail outlets, such as bakeries, dairy stores, grocery stores, wine shops, convenience stores, supermarkets, and food service providers, such as hotels, restaurants, and bars.

Asia Pacific is estimated to account for the largest market share of the commercial refrigeration equipment market in 2018.
The growth of the commercial refrigeration equipment market in the Asia Pacific region is fueled by growth in the manufacturing sector; increase in spending on private & public infrastructure development; and rapid urbanization.

Profile break-up of primary interviews for the report:
• By Company Type: Tier 1 – 42 %, Tier 2 – 25%, Tier 3 – 33%
• By Designation: C level – 33%, Director level – 25%, Others – 42%
• By Region: North America – 44%, Europe – 25%, Asia Pacific – 19%, Middle East & Africa – 6%, South America – 6%

As a part of the qualitative analysis, the research provides a comprehensive review of major market drivers, restraints, opportunities, and challenges. It also discusses competitive strategies adopted by market players, such as Carrier Corporation (US), Emerson Electric Company (US), Daikin Industries, Ltd. (Japan), and GEA Group AG (Germany).

Research Coverage:
The report defines, segments, and projects the commercial refrigeration equipment market based on product type, refrigerant type, application, and region.It provides detailed information regarding the major factors influencing the growth of the market, such as drivers, opportunities, and industry-specific challenges.

It also strategically profiles key players and comprehensively analyzes their market shares and core competencies. The report analyzes competitive developments including new product launches/developments undertaken by key players.

Reasons to buy the report:
The report will help market leaders/new entrants in this market by providing them the closest approximations of revenue for the overall commercial refrigeration equipment market and its subsegments.This report will help stakeholders to better understand the competitive landscape and gain insights to position their businesses better and make suitable go-to-market strategies.

The report will also help stakeholders understand the pulse of the market and provide information on key market drivers, restraints, challenges, and opportunities.

Read the full report: https://www.reportlinker.com/p05587816

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C-Store and Food Service Consulting

Insights regarding the C-store and Food Service industries from PES Design Group - C-store, Restaurant and Food Service Consultants with over 40 years of experience in planning innovative, attractive, efficient and profitable facilities.

WEDNESDAY, OCTOBER 1, 2014

TO REMODEL OR NOT TO REMODEL: THAT IS THE QUESTION

It's difficult to know whether or not the capital cost of a store remodel will be worth it over the life of the remodel. So here are few initial questions to ask yourself as you decide.

1. How long has it been since the last remodel of my store?

Stores should be remodeled every 5-10 years.
However, ultimately competitors will determine a renovation's lifespan. In areas with little competition, a renovation will remain fresh for much longer than in areas where competitors are frequently updating their looks. The quality of the renovation also helps determine its lifespan. As mentioned, on average a good design can last 5-10 years, whereas a trendy design may only last 10 minutes!

2. Am I keeping up with the "Joneses"?

Although this is not a great standard to live your personal life by, it is an essential question when determining whether or not your store is keeping up with competitors. Take a look around your community and evaluate whether your store has the same engaging impact and positive customer experiences as your competition. Don't limit your evaluation to direct competitors (i.e., other c-store and/or gas stations). You'll also want to look at coffee houses, fast-food location such as Dunkin Donuts, McDonalds, etc, and grocery stores.

3. Am I offering the latest trends in C-store offerings?

Food service is driving most of the C-stores sales now. Retailers should expand and focus more on food-to-go and other high-profit items instead of lower-margin gasoline and tobacco. Expanded food service offerings are one of the reasons c-stores have fared better than most sectors during this recession.

THE TIMING IS RIGHT

The struggling economy may be slowing geographic expansion for some companies. That is why store remodels are more popular than ever as retailers strive to get the most bang for their capital improvement buck and outshine competitors. Remodeling a location usually costs less than building one from the ground up. And since the economy has turned, contractors are working harder to ensure their prices are competitive. So now is a good time to move on your remodel considerations.

THE RETURN ON INVESTMENT

Convinced that your store needs a remodel to stay fresh, modern and competitive? If

ABOUT ME

PES Design Group

We are are C-store, Restaurant and Food Service Consultants with over 40 years of experience in planning innovative, attractive, efficient and profitable facilities. We have offices in Illinois and Florida and serve clients worldwide.

View my complete profile

BLOG ARCHIVE

so, the next, and perhaps most important question is: ***"How can I determine if the capital cost of a remodel will pay off over the 5-10 year life span of the remodel?"***

Let's first consider the average cost. Stewart Shops Corp. (Saratoga Springs, NY) is a 328-store chain has renovated an average of one store per week for the past two years. Nancy Trimbur, senior vice president, states, *"The average remodeling project costs about $100,000 with some as high as $275,000."*

Next, let's consider the average return of investment. Trimbur says, *"Can I get a return on investment out of absolutely everything? Absolutely not. Some stores it's not measurable. But many projects lead to double digit growth."*

"A remodel usually brings in a 5 percent to 10 percent increase in sales," says David J. Livingston, a retail consultant and principal of DJL Consultants in Waukesha, Wis. *"But I've seen stores remodel and get no increase in sales. Then perhaps the issue wasn't with the facility, but rather with the operations or the concept. So remodels don't always work."*

HOW IS ROI MEASURED?

A typical ROI calculation is a ratio of increased sales to the amount of investment. For example, if a renovation cost $100,000, and the store earned $20,000 more in the year following the renovation, the ROI is 20 percent. That's a highly simplistic view of ROI, however, and ignores the impact on sales of variables other than the renovation, such as competition, weather and population patterns.

A more accurate measurement compares a remodeled store's performance to that of similar "control" stores that were not remodeled. Consider a remodel program where the retailer repaints some stores, expands some stores and adds new checkout lanes to others. Testing and learning can help determine the winning combination of remodel elements and recommend actions for all future remodels. Not every retailer uses such a sophisticated system, of course, but more are considering the impact of not renovating when making their decisions asking, *"What do I stand to lose if I don't remodel?"*

WHAT ELEMENTS PAY OFF?

Researching customer needs in advance of a remodel can pay off big and greatly affect the ROI. Do your research!

- Conduct focus groups to learn what is important to your customers.
- Visit busy competitors to see what elements are selling best.

For example, one company's research suggested customers like to socialize in stores. *"There's a Mayberry aspect of the community. People want to meet their friends and chat at the store,"* the company spokesman says. So when the company built a new store, it included a comfortable sit-down area for shoppers to eat prepared foods. It also added sushi, prime beef and other value-added items prepared by in-store chefs after the research indicated many customers have young families and want more convenient prepared foods.

- Many stores have boosted profits by adding prepared food departments.
- The deli area can be a draw for customers if it is stocked well with lunch trays, breakfast items and other to-go items.
- Hot grab-n-go and ready-meals may be a perfect addition to stores in a community with family's where both partners work full time.

It's the little improvements like this that customers notice the most.

WHAT ELEMENTS DO NOT PAY OFF?

Elements that do not pay off are ones inefficiently tie up staff or need to be manned continuously. Even if it's slow, an employee can't leave to stock shelves or do other important tasks.

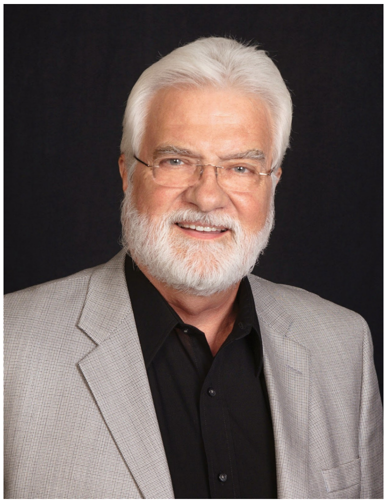
This is where the expertise of a design consultant will serve a retailer well. An experienced consultant will be able to objectively guide a retailer toward areas that would increase revenue and steer clear of areas that will not pay off. A good consultant will also not get caught up in trendy design, but will look forward providing a design that will sustain and remain profitable for up to 10 years.

Finally, renovations will not fix underlying problems. For example, a retailer that invests in new decor and other cosmetic improvements, but it does not change its prices, keep the store clean, improve employee morale or train employees well enough to provide that essential element of a positive customer experience. Remodel dollars are wasted if you don't take care of the underlying problems.

TAX IMPLICATIONS

Retailers considering renovations should pay close attention to new Internal Revenue Service (IRS) regulations affecting the way renovation costs are treated. The new rules help taxpayers determine if their renovation costs should be deducted as an expense or capitalized. The old regulations were ambiguous, and the taxpayer could make a subjective judgment about that. While considering the cost of a remodel a retailer should also consult the advice of an accountant to determine the tax implications and how they will affect the overall ROI.

At **PES Design Group** we are specialists in Restaurant, Food Service and C-store design and have a staff of knowledgeable consultants with over 25 years of experience in planning innovative, attractive, efficient and profitable c-store facilities. We will use our years of experience to design innovation and uniqueness into your project helping you to set yourself apart from the rest. We can provide you with a remodel design that will help you achieve a greater positive customer experience, top your competition and increase profits!



Don't take our word for it! Visit our portfolio page at portfolio.pesdesigngroup.com for a list and photos of projects our consultants have done during their 25+ years in the C-store Design Industry as well as testimonials from very satisfied clients.

Call us today for a FREE consultation about your remodel project! 800.850.6638

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About the Author

Jim Richards is a Principal Design Consultant and C-store Specialist with the PES Design Group, Midwest Office. During his 30 years of experience in the C-store Design Industry, Jim has designed many c-stores that are modern, innovative, efficient and most importantly... PROFITABLE.

Sources for this article include, but are not limited to "How Much is a Facelift Worth?" by Ed Alvis, Retail Leader Magazine and "By The Numbers: The ROI of Sustainability" by Liz Parks, Supermarket News

Posted by PES Design Group at 1:54 PM

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ENERGY EFFICIENCY

DOE steams ahead with third appliance standard in Obama's 'year of action'

Katherine Ling, E&E reporter

Greenwire: Friday, February 28, 2014

The Energy Department today rolled out new energy efficiency standards to make commercial refrigeration equipment in grocery and convenience stores about 30 percent more efficient -- providing another bump for President Obama's Climate Action Plan.

This is the third appliance standard DOE has announced since Obama's State of the Union address a month ago, in which he pledged to use his executive power to forward his agenda, including cutting U.S. energy use, as part of his strategy to mitigate climate change. DOE published final efficiency standards for external power supplies and floodlights about a month ago (***E&ENews PM***, Feb. 3).

Three other proposed appliance efficiency regulations, which were published last fall, are queued up for finalization soon: furnace fans, walk-in coolers and freezers, and electric motors.

The new commercial refrigeration rules update standards from 2009 and will save businesses up to $11.7 billion on their energy bills over the next three decades, DOE said. The rules will take effect in 2017.

The standards will cut carbon emissions by about 142 million metric tons, which brings the total carbon emissions savings from efficiency rules finalized under the Obama administration to 1.9 billion metric tons through 2030, according to DOE. The administration's goal is to reach 3 billion metric tons saved.

"In our supermarkets and grocery stores, refrigeration can use almost 40 percent of total energy use -- contributing a large portion of these businesses' utility bills," Energy Secretary Ernest Moniz said in a statement. "By improving the energy efficiency of commercial refrigeration equipment -- like restaurant-size fridges or the deli case at your local grocery store -- we can make our businesses more competitive, reduce greenhouse gas emissions and save money."

The Appliance Standards Awareness Project welcomed the new rules -- which are more than a year late --saying in a statement that much of the energy reduction is possible through new LED lighting and occupancy sensors, high-performance glass doors and high-efficiency motors, which all provide big efficiency gains. Companies could capture even more efficiency if they add doors to open refrigerator cases, ASAP added, although that was not included in today's rule.

"These strong new efficiency standards will take a big bite out of the energy use of supermarket and restaurant refrigerators," ASAP Executive Director Andrew deLaski said.

Commercial Refrigeration Equipment

THE PRODUCT:

Commercial refrigeration equipment refers to refrigerators and freezers used in supermarkets, convenience stores, restaurants, and commercial kitchens. Commercial refrigeration equipment can either be “self-contained,” where the refrigerated case and the complete refrigeration system are combined into a single physical unit, or “remote condensing,” where the compressor and condenser are located remotely from the refrigerated case. “Reach-ins” are self-contained equipment that have either solid or glass doors and are typically used in food-service establishments. Refrigerated display cases, which are commonly used in supermarkets, are remote condensing and can either have doors or be open cases.

THE STANDARD:

The Energy Policy Act (EPAct) of 2005 set standards for “reach-in” refrigerators and freezers, which took effect in 2010. In 2009, DOE issued new standards for additional types of equipment including ice-cream freezers, self-contained equipment without doors, and remote-condensing equipment. These standards took effect in 2012.

In 2014, DOE published a final rule updating the standard levels for all types of commercial refrigeration equipment, and they took effect in March 2017. The new standards cut energy consumption by more than 40% for solid-door “reach-in” refrigerators and freezers, and by 28% and 12% for glass-door supermarket refrigerator and freezer display cases.

KEY FACTS:

Refrigeration accounts for about 15% of total commercial building electricity consumption. Compared to older units, commercial refrigeration equipment meeting the latest standards employ technologies such as LED lighting and occupancy sensors, high-performance glass doors, and high-efficiency motors. Some equipment is now also using new refrigerants such as propane (R290), which provides significantly better efficiency performance than traditional refrigerants in addition to having zero ozone depletion potential (ODP) and near-zero global warming potential (GWP).

Commercial Refrigeration Equipment Standards of 2014 (http://www.gpo.gov/fdsys/pkg/FR-2014-03-28/pdf/2014-05082.pdf)
Savings through what year?: 2046
Energy saved (quads): 2.89
CO2 savings (million metric tons): 142
Net present value savings ($billion) 3% discount rate: 11.74
Net present value savings ($billion) 7% discount rate: 4.93


(/blog/manufacturers-beating-new-efficiency-standards-CRE)
Manufacturers are not just meeting, but beating new efficiency standards for commercial refrigerators and freezers (/blog/manufacturers-beating-new-efficiency-standards-CRE)

(/blog/new-refrigeration-efficiency-standards-take-bite-out-supermarket-and-restaurant-energy-costs)
New Refrigeration Efficiency Standards To Take a Bite out of Supermarket and Restaurant Energy Costs (/blog/new-refrigeration-efficiency-standards-take-bite-out-supermarket-and-restaurant-energy-costs)
Read More (/blog-posts/product/6787)

Links

Commercial Refrigeration DOE Webpage (http://www1.eere.energy.gov/buildings/appliance_standards/product.aspx/productid/52)

Fact Sheets

Fact Sheet: The Cost of Overdue Energy Efficiency Standards (/sites/default/files/The_Cost_of_Overdue_Energy_Efficiency_Standards.pdf)
(1/30/2013)
The Cost of Overdue Energy Efficiency Standards - Analysis Methodology (/sites/default/files/Cost_of_Delays_Methodology_August_2013_0.pdf)
(1/30/2013)
Fact Sheet: Savings from Standards Since 2009 (/sites/default/files/Progress_toward_3_billion_CO2_reduction_June_2016_0.pdf)
(9/9/2011)
Fact Sheet: Savings from Standards Since 2009 (/sites/default/files/Progress_toward_3_billion_CO2_reduction_June_2016_0.pdf)
(9/9/2011)

Filings

Commercial Refrigeration NOPR Comments (/sites/default/files/CommRefrig_NOPR_comment_Nov_2013.pdf)
(11/18/2013)
Comments on the Commercial Refrigeration Equipment Preliminary Technical Support Document
(/sites/default/files/Comments%20on%20the%20Commercial%20Refrigeration%20Equipment%20Preliminary%20TSD-%20May%2016%2C%202011.pdf)
(6/20/2011)
Comments on the Commercial Refrigeration Equipment Framework Document
(/sites/default/files/Comments%20on%20the%20Commercial%20Refrigeration%20Equipment%20Framework%20Document-%20July%2030%2C%202010.pdf)
(6/20/2011)
Comments on DOE's April 25, 2006 Federal Register notice and Rulemaking Framework document commercial refrigeration equipment standards
(/sites/default/files/ComRefrigComments0506.pdf)
(5/28/2011)

ASAP Press Releases

New U.S. Department of Energy Rules Lauded for Rating Commercial Systems (/document/new-us-department-energy-rules-lauded-rating-commercial-systems)
(1/8/2014)
Energy Department Gives Energy Savings the "Cold Shoulder" (/document/energy-department-gives-energy-savings-cold-shoulder)
(5/19/2011)

Timeline

Federal	Date	States
Potential Effective Date of Updated Standard (/node/7570)	**2023**	
Updated DOE Standard Due (/node/7570)	**2020**	
3rd Federal Standard Effective (/node/7570)	**2017**	
Test Procedure - Last Revised - Active Mode (/node/7570)	**2014**	
3rd Federal Standard Adopted (DOE) (/node/7570)	**2014**	
Initial Federal Legislation Enacted (/node/7862)	**2012**	
2nd Federal Standard Effective (/node/6870)	**2012**	
	2010	NJ Standard Effective (/node/7194)*
	2010	AZ Standard Effective (/node/7221)*
	2010	RI Standard Effective (/node/7248)*
	2010	NY Standard Effective (/node/7284)*
1st Federal Standard Effective (/node/7302)	**2010**	
2nd Federal Standard Adopted (DOE) (/node/6870)	**2009**	
	2008	CT Standard Effective (/node/7213)
	2008	OR Standard Effective (/node/7280)
	2007	WA Standard Effective (/node/7195)
	2005	MD Standard Effective (/node/7227)
1st Federal Standard Adopted (Congress) (/node/7302)	**2005**	
EPACT Initial Federal Legislation Enacted (/node/6743)	**2005**	
	2005	NJ Standard Adopted (/node/7194)
	2005	WA Standard Adopted (/node/7195)
	2005	AZ Standard Adopted (/node/7221)
	2005	RI Standard Adopted (/node/7248)
	2005	OR Standard Adopted (/node/7280)
	2005	NY Standard Adopted (/node/7284)

	2004	CT Standard Adopted (/node/7213)
	2004	MD Standard Adopted (/node/7227)
	2003	CA Standard Effective (/node/7287)
	2002	CA Standard Adopted (/node/7287)

* State standard never went into effect due to preemption by federal standard.

Timeline reflects state standards from 2001 to present; federal standards from inception to present.

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Manufacturers are not just meeting, but beating new efficiency standards for commercial refrigerators and freezers

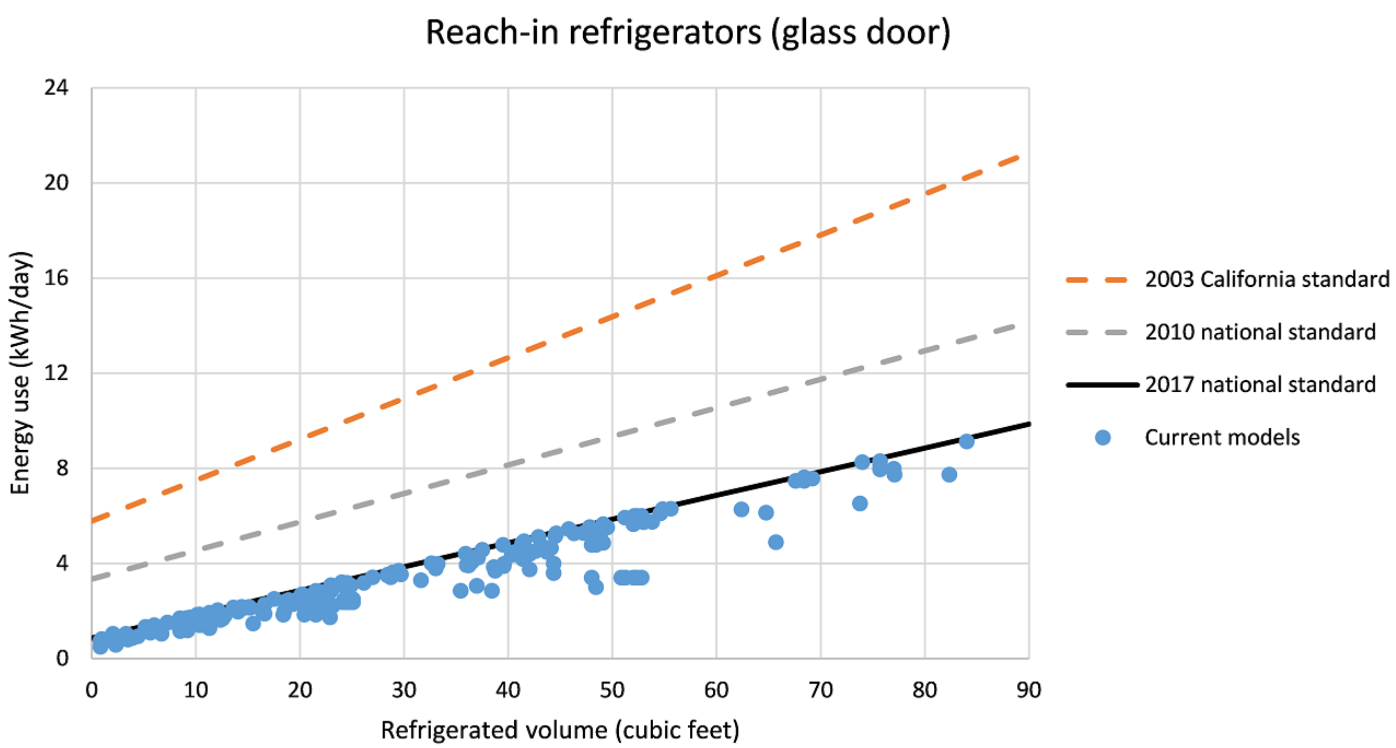
Posted on March 27, 2017 by
Joanna Mauer

New efficiency standards that took effect today will save money for restaurants, supermarkets, convenience stores, and other businesses that use commercial refrigerators and freezers. Manufacturers have introduced new products that not just meet the new standards, but in some cases are significantly more efficient than what the minimum standards require.

Commercial refrigerators and freezers include “reach-ins,” which have either solid or glass doors and are typically used in food-service establishments, and refrigerated display cases, which are commonly used in supermarkets.

California established the first efficiency standards for commercial refrigerators and freezers, which took effect in 2003. The first national efficiency standards, which were negotiated by manufacturers and efficiency advocates, were enacted as part of the Energy Policy Act (EPAct) of 2005 and took effect in 2010. EPAct 2005 also directed the Department of Energy (DOE) to update the initial standards and expand the scope. The new standards that took effect today were finalized in 2014 (https://www1.eere.energy.gov/buildings/appliance_standards/standards.aspx?productid=28).

As can be seen in the graph below, a typical glass-door reach-in refrigerator just meeting the 2017 standards uses about 40% less energy than the 2010 standards, and about 60% less energy than the first California standards. While a 40 cubic foot glass-door reach in-refrigerator just meeting the 2003 California standard used more than 12 kilowatt-hours (kWh) per day and one just meeting the 2010 national standard used about 8 kWh/day, a refrigerator just meeting the 2017 standard uses less than 5 kWh/day. A business that pays 10 cents/kWh for electricity would spend about $462 per year to operate a 2003 vintage unit but just $177 to operate a new unit, saving more than $285 a year.



Note: Data on current models are from the DOE Certification Compliance Database as of March 20, 2017.

The graph also shows that many current products on the market are not just meeting, but beating the 2017 standards. The most efficient glass-door reach-in refrigerators use almost 50% less energy than products just meeting the 2017 standards. For example, while a 48 cubic foot refrigerator just meeting the 2017 standards uses 5.7 kWh/day, the most efficient 48 cubic foot refrigerators use just 3.0 kWh/day.

The performance of new super-efficient reach-in refrigerators is possible in large part due to new refrigerants—in particular propane (R290). Under EPA’s Significant New Alternatives Policy (SNAP) program, the two most common refrigerants used in commercial refrigerators and freezers (R134a and R404A) will be phased out by 2020 (https://www.epa.gov/sites/production/files/2016-12/documents/snap_regulatory_factsheet_july20_2015.pdf). Propane is an attractive replacement refrigerant for many commercial refrigeration applications because in addition to having zero ozone depletion potential (ODP) and near-zero global warming potential (GWP), propane also provides significantly better efficiency performance than R134a and R404A.

In addition to new refrigerants, manufacturers are also employing technologies such as LED lighting, high-efficiency fan motors, and high-performance glass doors to improve the efficiency of commercial refrigerators and freezers.

DOE estimates that products meeting the new commercial refrigeration standards sold over 30 years will reduce US electricity consumption by about 340 billion kWh, which is equivalent to the annual electricity use of 28 million US households, and save businesses up to $12 billion.

The energy savings from the new standards will translate into big electricity bill savings for businesses that purchase commercial refrigeration equipment. For example, DOE estimates that the new standards will save purchasers of glass-door reach-in refrigerators and freezers about $225 and $5,000, respectively, over the life of the equipment. Purchasers of supermarket glass-door refrigerator and freezer cases are set to save more than $500 over the lifetime of a single case, and a typical supermarket has about 60 (http://apps1.eere.energy.gov/buildings/publications/pdfs/corporate/commercial_refrig_report_10-09.pdf) refrigerated display cases.

The new standards for commercial refrigeration equipment have encouraged manufacturer innovation to introduce products that not just meet, but beat the standards, and will result in large savings for the food sales and food services businesses that buy and use these products.

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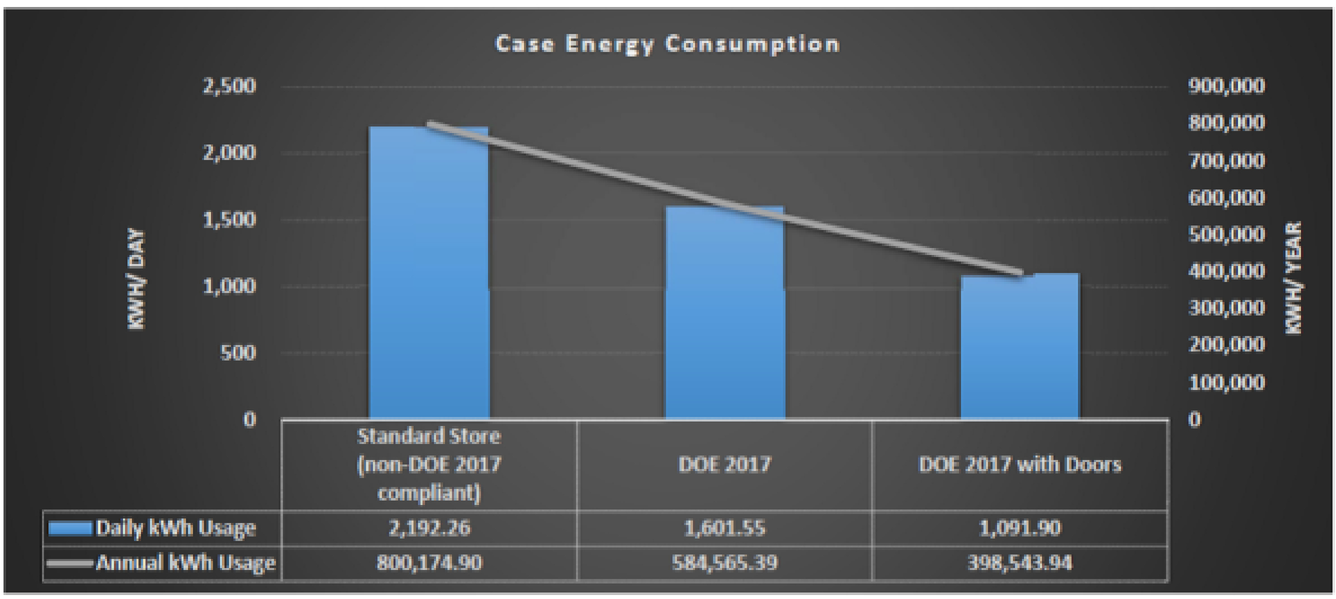
3 Ways Food Retailers Will Be Affected by New Commercial Refrigeration Standards



PART ONE OF THREE: THE NEW REGULATIONS AND THEIR EFFECTS

On March 27, 2017, new regulations from the Department of Energy requiring greater energy efficiency for commercial refrigerated cases will go into effect. These standards apply only to commercial refrigeration manufacturers, but they will have a significant impact on food retailers in three important ways. This three-part series will describe those effects and provide suggestions on how to best prepare for the changes.

The new limits, dubbed DOE 2017, apply to most models, but the biggest changes are happening with closed cases. Because closed cases are already the industry's most energy-efficient models, reducing their energy consumption required the greatest feats of engineering. Here are some of the ways Hillphoenix engineers met DOE 2017's requirement to reduce energy consumption of medium-temperature door cases by a whopping 28%:

- Upgrading to LED lights

- Repositioning anti-sweat heaters
- Increasing coil efficiency
- Improving fan motor efficiency
- Adding occupancy sensors to operate lights

What do these mean for food retailers?

1. *Many case models will change — and some will disappear.* Existing cases are grandfathered in, but some of the refrigerated case models retailers have bought for years may no longer be available. The new regulations mean manufacturers will have to sunset a number of model lines. Food retailers will need to know how the equipment is changing and how to manage operating old and new cases in the same store environment.

3. *New cases will operate differently*. That could mean that the lighting looks different — and probably better — from what food retailers see in existing cases. It could mean that the cases are quieter and the aisles are more comfortable for shoppers.
4. *New cases will affect store humidity and temperature.* DOE-required changes to refrigerated cases also mean that food retailers will have to make operational changes of their own — in particular, heating and air conditioning — to ensure comfortable, safe, visually appealing store environments for shoppers.

The good news is that DOE 2017-compliant refrigerated cases will bring some of the energy-saving benefits the Department of Energy envisioned. In fact, a 70,000-square-foot supermarket can cut its annual kilowatt usage 50% by switching to DOE 2017-compliant cases with doors.

Energy use comparison: Standard vs. DOE 2017-compliant cases by Hillphoenix
Notes: Calculations based on a 70,000- square-foot supermarket. Hillphoenix cases in this analysis exceed DOE 2017 requirements. This analysis includes adding doors to packaged produce, meat and beverage cases.

To maximize these benefits and minimize potential challenges, food retailers need to begin preparing now for what's ahead.

NEXT: WHAT TO EXPECT AND HOW TO GET READY

2019 CALIFORNIA REFRIGERATION REGULATIONS

2019 California Refrigeration Regulations

The California Air Resources Board (CARB) has officially published details about the California Cooling Act, which will take effect on January 1, 2019. The Act, which is based on vacated EPA SNAP Rule 20, prohibits HFC refrigerants with high global warming potential (GWP)—such as R-404A and R-507A—for supermarket systems, condensing units, and self-contained units.

The California Cooling Act affects new and retrofit equipment. Manufacturers cannot sell equipment using prohibited refrigerants that are manufactured after January 1, 2019.

CARB Definition for New Refrigeration Equipment:

1. Any refrigeration equipment that is first installed using new or used components; or
2. Any refrigeration equipment that is modified such that it is:
   a. Expanded after the date at which this subarticle becomes effective, to handle an expanded cooling load by the addition of components in which the capacity of the system is increased,

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- **2019 CALIFORNIA REFRIGERATION REGULATIONS**
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- Zero Zone at 2017 AWG Fall Food Show
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- Festival Foods Changes to R448A

percent of the capital cost of replacing the entire refrigeration system.

If the retailer or engineer is unsure whether the work will classify as a new system, they should contact the Refrigerant Management Program Hotline at 916-324-2517 or rmp@arb.ca.gov.

Additional Reading:

Refer to the following for more information about California's regulations or the EPA regulations that affect the rest of the country:

- CARB Bulletin about California Regulations: https://content.govdelivery.com/accounts/CARB/bulletins/21f36dd
- Zero Zone Guide to Recent EPA Regulations: https://www.zero-zone.com/epa-regulations-retailers-responsibilities/

For further information, contact Zero Zone at 800-247-4496 and ask for our Department of Regulatory Compliance and Refrigeration Technology. This message is informational only, and customers should review the new regulations fully to ensure compliance.

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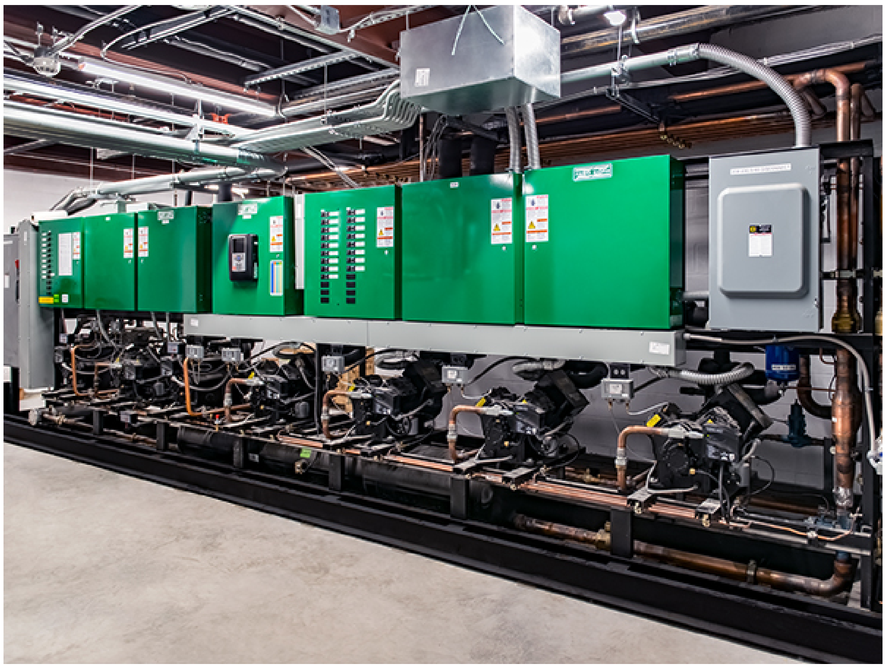
REFRIGERANT REGULATIONS UPDATE



Refrigerant Regulations Update

Vacated EPA SNAP Rule 20 Allows R-404A for Refrigeration Equipment

In 2015, the United State Environmental Protection Agency (EPA) issued SNAP Rule 20 to prohibit the use of certain hydrofluorocarbons (HFCs) that were previously acceptable substitutes to ozone depleting substances. Rule 20 required refrigeration equipment manufacturers like Zero Zone to obsolete specific refrigerants, including R-404A and R-507A.

However, Rule 20 was challenged by parties who contended that the EPA SNAP Program could not be used to obsolete HFCs that did not deplete ozone. Rule 20 was overturned, and despite the decision being appealed to the D.C. Circuit Court of Appeals, the court's decision stood. Because of this, on February 5,

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Festival Foods Changes to R448A

cases.

- Zero Zone Hybrid™ cases may be ordered with either R-404A or R-448A. Hybrid™ cases utilizing R-404A should be available for shipment by April 1, 2018.
- Display cases using remote condensing units may be ordered with either R-404A or R-448A. Remote condensing units utilizing R-404A should be available for shipment by April 1, 2018.

This change does not obsolete R-448A or any of the lower GWP refrigerants approved by SNAP. Customers may want to order R-448A or other lower GWP refrigerants in preparation for any future regulations. For example, the California Air Resources Board (CARB) has proposed legislation that will implement SNAP Rule 20 in September 2018 for the state of California. It is possible that other states will make similar rulings. Because of this, lower GWP refrigerants may still be the best option for many customers. Customers need to evaluate which refrigerant will be best for their situation.

For further information, contact Zero Zone at 800-247-4496 and ask for our Department of Regulatory Compliance and Refrigeration Technology. This message is informational only, and customers should review national and local laws and regulations to ensure compliance.

Exhibit 4

2008 FACTS ABOUT STORE DEVELOPMENT

FMI

RESEARCH

Food Marketing Institute

FACTS About Store Development

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Facts About Store Development

Developed by:
Food Marketing Institute
Research Department

$95 Retailer/Wholesaler Members
$150 Associate Members
$195 Nonmembers

For questions or comments, please contact:
Anne-Marie Roerink, director of research, Food Marketing Institute
Email aroerink@fmi.org or call 202-220-0730

Food Marketing Institute (FMI) conducts programs in public affairs, food safety, research, education and industry relations on behalf of its 1,500 member companies – food retailers and wholesalers – in the United States and around the world. FMI's U.S. members operate approximately 26,000 retail food stores and 14,000 pharmacies. Their combined annual sales volume of $680 billion represents three-quarters of all retail food store sales in the United States. FMI's retail membership is composed of large multi-store chains, regional firms and independent supermarkets. Its international membership includes 200 companies from more than 50 countries. FMI's associate members include the supplier partners of its retail and wholesale members.

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Printed in the USA

Table 14: *MEDIAN OF THE AVERAGE NUMBER OF YEARS BETWEEN REMODELS*

	Time Between Remodels # Years
All Respondents	**8.0**
Regional Location of Headquarters	
Northeast	8.0
Midwest	7.0
South	7.5
West	10.0
Size	
1 Store	8.5
2-30 Stores	10.0
31-100 Stores	10.0
More Than 100 Stores	7.0
Independents Versus Chains	
Independents (1-10 Stores)	7.5
Regionals (11-100 Stores)	10.0
Chains (101 or More Stores)	7.0
Annual Sales	
Less Than $100 Million	*
$100.1-$500 Million	9.0
$500.1-$1 Billion	10.0
More Than $1 Billion	7.5

* Data for questions answered by fewer than three companies were omitted to ensure respondent anonymity.

Grocers take risks to make stores nicer

Daily Gazette, The (Schenectady, NY) - Thursday, August 25, 2011
Edition: *Schenectady /Albany; Final*
Section: *A: Front*
Page: *A9*

It's funny how you learn things about yourself in odd kinds of ways. Like, for instance, that I'd strive for efficiency at the supermarket by drawing up a shopping list that mirrored the layout of the store: produce and bread at the top, because they were in the aisles I encountered first, and cheese and yogurt later, since the dairy cases were at the far end of the store.

In fact, I wasn't even aware of this list-by-aisle strategy until my local supermarket began a top-to-bottom remodel that made shopping for food and sundries -- a household chore I disliked to begin with -- more and more inefficient.

Bread was now mid-store, and pickles were where the cereal used to be. And raisins and bleach? I had to crisscross the store several times before I found them in unfamiliar places. Worse yet, the renovations were done in stages so that on every trip to the store, it seemed, products were relocated to different aisles.

Retailers typically remodel their stores every seven to 10 years, industry analysts say, with the trend nowadays headed toward a once-a-decade schedule because of rising material and labor costs. The Food Marketing Institute says a recent survey of members shows store development "remains subdued": 63 percent of respondents plan no new construction or remodeling this year.

Paul Weitzel, a managing partner at retail consultant Willard Bishop in suburban Chicago, estimated in a report last summer that an average total-store remodel -- new equipment, fixtures and decor -- will cost a grocer \$3.5 million to \$3.7 million, with the latter number including sales lost during the actual work.

The investment can be recouped in about seven years, according to the report, since remodeling will boost store sales. And while Weitzel suggested that a "refresh" -- a limited-edition remodel at a fraction of the cost -- might serve grocers just as well in today's tight economy, he saw the facelifts as important to remaining relevant to consumers with ever-expanding shopping options. "More choices means more competition for share of wallet," Weitzel wrote.

But what about customer loyalty during a remodel? I groused to family every time I shopped my local supermarket's ongoing remodel, annoyed that my trip no longer was as quick and efficient as when I knew the store layout.

Dwayne Gremler, a professor of marketing at Bowling Green State University in Ohio, says retailers should take care when they disrupt consumers' routines, since that may encourage some customers to seek out alternatives. Forcing new habits, he said, "is no different [in consumers' minds] than going to a different store." Gremler is one of the authors of a forthcoming article in the Journal of Marketing, "Extreme Makeover: Short- and Long-Term Effects of a Remodeled Servicescape," that weighs the payoffs of a facelift in a fast-food chain. One finding the article says needs further analysis is the effect on store traffic.

While customer spending will increase after a remodel, customer traffic seems unaffected in the short term and may even dip as time goes on, the article says, perhaps because some people are put off by the interruption to their "habitual behaviors" and go elsewhere.

Although customer loss wasn't specifically calculated in the study, Gremler estimated the churn might have been 10 percent to 15 percent.

He said the hope of retailers is that they have built enough of a relationship with customers that any short-term inconvenience from remodeling is worth the risk, since the danger long-term is looking old and outdated versus the competition.

Marlene Kennedy, a longtime business editor in the Capital Region, can be reached by email at marlenejkennedy@gmail.com.

Record Number: *1395804E5972A600*

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How Much is a FACELIFT WORTH?

By Ed Avis - 07/02/2012

The struggling economy might be slowing some retailers' plans for geographic expansion, but it hasn't quashed their efforts to keep up with the Joneses.

If anything, store remodels are more popular than ever as retailers strive to get the most bang for their capital improvement buck and outshine competitors. Renovations come in all shapes and sizes, which is causing some retailers to re-evaluate how extensive their remodeling plans should be.

At Publix Supermarkets, which renovated 124 stores last year and expects to redo at least as many this year, some relatively minor changes have received the most shopper attention, says Maria Brous, director of media and community relations for Publix, which is based in Lakeland, Fla.

"It's the little improvements that sometimes customers notice the most," Brous says. "For example, they appreciate the LED lighting in coolers that turns on only when customers enter the aisle. That's a sustainable [element], and customers are starting to pick up on those things."

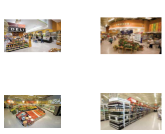
With margins under pressure, many retailers are opting to renovate existing locations to rekindle interest without the full cost of new construction. And they all want to know, how can we maximize return?

"A remodel usually brings in a 5 percent to 10 percent increase in sales," says David J. Livingston, a supermarket consultant and principal of DJL Consultants in Waukesha, Wis. "But I've seen stores remodel and get no increase in sales. Then perhaps the issue wasn't with the facility, but rather with the operations or the concept. So remodels don't always work."

Before retailers dive into a remodel, consider the following questions: Why remodel? Which elements of a remodel are likely to pay off and which options aren't likely to produce a financial return? What are the tax implications of remodeling?

Why Remodel?

Stores remodel for countless reasons, but most boil down to competition. When a competitor has a fresher concept, introduces an expanded deli or enters a market for the first time, existing stores often decide a renovation is a competitive necessity. If the existing store is aging, the retailer's desire to renovate in the face of new competition is even stronger.



Publix renovated 124 stores last year and will likely redo as many this year.

"Ninety-nine times out of 100 the impetus to remodel is going to be competition."

– Andrew Swedenborg,

King Retail Solutions

"Ninety-nine times out of 100 the impetus to remodel is going to be competition," says Andrew Swedenborg, executive vice president for business development at King Retail Solutions, a consultancy in Eugene, Ore., that guided Robért Fresh Markets on its rebranding and remodeling. "A good remodel is great marketing for a store in and of itself. It causes excitement in a community, gets a grocery store noticed and elevates the store above its local competition in the eyes of the customers."

"We are repositioning our entire brand identity in a comprehensive manner across the board.... Every store will be remodeled by early 2014."

– Scott McCulloch,

Walgreen Co.'s Duane Reade

While competitive pressure often drives a renovation, a corporate directive also can spur it. Walgreen Co.'s Duane Reade, a New York-based pharmacy chain that also sells groceries, is remodeling all of its 254 stores as part of the company's rebranding effort. "We are repositioning our entire brand identity in a comprehensive manner across the board," says Scott McCulloch, senior director of merchandising. "The entire chain has taken on a new identity and every store will be remodeled by early 2014."

Remodeling a location usually costs less than building one from the ground up, yet in some circumstances a new store might be the better long-term investment, experts say. "If a store is doing excessive sales per square foot, and they're getting a bottleneck at the front end, they may need to move to a larger location or expand," Livingston says.

On average, grocery retailers generate $10 in weekly sales per square foot of space, Livingston says. If a store is generating $5 to $6 per square foot per week, the retailer needs to renovate or close the location. If the store is generating $20 per square foot per week, the retailer should consider expanding or building a larger store, he says.

Competition wasn't the main factor spurring Marc Robért to renovate Robért Fresh Markets in New Orleans in 2005: Hurricane Katrina forced his hand by destroying all five of his locations. The gut renovations have generated positive returns for stores in neighborhoods that have recovered from the storm, Robért says. The last three projects Robért Fresh Markets launched–two renovations and one new store–cost $6 million each. Robért says he is comfortable with the return on investments for all three, though he declines to be specific.

How is ROI Measured?

When weighing a renovation, determine how the return on investment will be measured. Accurate measurements allow the store to focus subsequent remodels on those areas that pay off the most.

A typical ROI calculation is a ratio of increased sales to the amount of investment. For example, if a renovation cost $1 million, and the store earned $200,000 more in the year following the renovation, the ROI is 20 percent. That's a highly simplistic view of ROI, however, and ignores the impact on sales of variables other than the renovation, such as competition, weather and population patterns.

"Test & Learn [software] can distill the winning combination of remodel elements and recommend actions for every other store in the chain."

– Anthony Bruce,

Applied Predictive Technologies

A more accurate measurement compares a remodeled store's performance to that of similar "control" stores that were not remodeled, says Anthony Bruce, chief executive officer at Applied Predictive Technologies (APT), a Washington D.C.-based firm that helps businesses measure the impact of capital investments, such as store remodels, with software called Test & Learn. "Consider a remodel program where the retailer repaints some stores, expands some stores and adds new checkout lanes to others," Bruce says. "Test & Learn can distill the winning combination of remodel elements and recommend actions for every other store in the chain."

Not every grocery retailer uses such a sophisticated system, of course, but more are considering the impact of not renovating when making their decisions. "We often advise clients to consider what they stand to lose if they don't remodel rather than [focus] on a specific desired ROI," Swedenborg says.

Which Elements Pay Off?

Researching customer needs in advance of a remodel can pay off. "We did a lot of research," Robért says. "We conducted focus groups to learn what was important to our customers."

For example, the company's research suggested customers like to socialize in stores. "There's a Mayberry aspect of the community. People want to meet their friends and chat at the store," Robért says. So when the company built a new Lakeview, La., store, it included a comfortable sit-down area for shoppers to eat prepared foods. It also added sushi, prime beef and other value-added items prepared by in-store chefs after the research indicated many customers have young families and want more convenient prepared foods.

Many stores have boosted profits by adding prepared food departments. The deli area can be a draw for customers if it is stocked well with lunch trays, breakfast items and other to-go items, says Dan Phillips, a project manager for Phillips Enterprises Inc., a retail renovation consultancy in Bellevue, Wash.

What Renovations Don't Pay Off?

Phillips advises against adding store features that inefficiently tie up staff. "For example, one large store in our area installed a roasted nut service pod in the middle of the store. Now that pod needs to be manned continuously. Even if it's slow, that person can't leave to stock shelves or something."

The floral department might make the store smell good, but it often doesn't generate much cash relative to the space it occupies. "It's never a moneymaker," Phillips says.

Renovations will not fix underlying problems, Livingston advises. For example, a chain invested in new decor and other cosmetic improvements, but it didn't change its prices or improve low employee morale. "There's a saying, 'You can't put lipstick on a pig.' Well, remodel dollars are wasted if you don't take care of the underlying problems," Livingston says.

How Long Does it Last?

Competitors can determine a renovation's lifespan. In areas with little competition, a renovation will remain fresh for much longer than in areas where competitors are frequently updating their looks. Metropolitan Market in downtown Seattle tends to remodel every three years, Phillips says. "Stores out from the city will do a minor remodel every five years and a full remodel every 10 years," he says.

The quality of the renovation helps determine its lifespan, too. "A good design can last 10 years or more; a trendy design will last 10 minutes," Swedenborg quips. "On average, though, a store's design remains fresh for about five to seven years following a remodel."

Tax Implications

Retailers considering renovations should pay close attention to new Internal Revenue Service (IRS) regulations affecting the way renovation costs are treated, says Rob Levin, managing director in the Corporate Strategic Federal Tax Services Group of Grant Thornton LLP in Atlanta. "The new rules help taxpayers determine if their renovation costs should be deducted as an expense or capitalized," Levin says. "The old regulations were ambiguous, and the taxpayer could make a subjective judgment about that."

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– Rob Levin,

Grant Thornton LLP

The new regulations stipulate that taxpayers consider their property in parts rather than as a whole. For example, under the old regulations, if a grocery store replaced one of three HVAC systems, it could probably deduct that expense in a single year with the understanding that the new HVAC did not materially affect the life of the building as a whole. Under the new regulations, the retailer would have to capitalize the purchase instead because the new HVAC would materially affect the life of the HVAC system.

If a renovation expense is deemed deductible, the retailer can take the full tax benefit of that work in the year it occurred. If it needs to be capitalized, the tax benefit will be spread out over the estimated life of the improvement. Another change allows companies to immediately deduct the remaining unamortized value of a component being replaced. For example, if a retailer is replacing a roof and the existing roof is not fully amortized, the remaining amortization can be taken as soon as the new roof is installed.

While the new tax regulations might change the return on investment in a given year, it is just one of many factors retailers should weigh as they consider renovating. The bottom line for most retailers is this: If enough customers spend enough new money in the renovated store, the renovation will be deemed successful.

Ed Avis is a freelance writer and editor in Chicago. He has written for Crain's Chicago Business, the Chicago Tribune, Specialty Coffee Retailer, Tea Magazine, and many other consumer and trade publications.

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How South Florida Supermarkets Move Customers Through Their Stores

By KAREN RUNDLET (/PEOPLE/KAREN-RUNDLET) • OCT 28, 2013

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The store you probably spend the most time in isn't a boutique or a department store. I'll bet, over the course of a year, it's the supermarket.

On average, supermarket customers shop for groceries twice a week and spend about $100. In South Florida, Publix is the marketshare leader – dominating with close to 250 stores. Winn Dixie is second. And then, we have Walmart and Sedano's.

While each chain is distinct in terms of pricing and store environment, there are commonalities in how many of them are designed, said Paco Underhill, a consultant and author who studies the science of how people shop all over the world.

(http://mediad.publicbroadcasting.net/p/wlrn/files/styl 29.JPG)

Publix supermarket #794 in Miami Shores was recently remodeled. The deli was expanded, as was the produce section. Publix says they remodel stores every five years.

CREDIT KAREN RUNDLET

Miami Shores is a village in northeast Miami Dade County. I do plenty of shopping at the one and only Publix within the village limits. Can't walk in there anymore without seeing someone I know. Neighbors, children from my daughter's school, friendly faces I know from the park or church.

Without ever visiting the store, Underhill was able to tell me about the design of my hometown supermarket. I grab a cart and hit the doorway. He explains why I see what I see.

"There's a reason that there are flowers or bakeries upfront, which is to get our saliva glands working. We tend to be much less disciplined shoppers when we are salivating," he said.

The store directs me to the right. Towards the fruit and vegetables.

(http://mediad.publicbroadcasting.net/p/wlrn/files/styl 28.JPG)

CREDIT KAREN RUNDLET

Publix corporate offices told me that the company remodels stores every five years. This particular store #794 was remodeled a few months ago. I've noticed the new layout in produce.

"Most produce sections are now lit theatrically," said Underhill, "meaning that that orange is displayed on a black or a dark background and it is lit like a television studio, so that the orange pops."

He explains that supermarkets encourage me... us... to shop produce first because it's one of the highest margin categories in the store. But here's the sad part – on average, we throw out 20-30 percent of our produce purchases because we don't eat it quickly enough. I always throw out spinach.

We move through the store pushing our carts with our left hand and generally putting things in our carts with our right hand so that most stores are designed with a counterclockwise circulation pattern putting our dominant right hand closest to the product. Maybe lefties like my husband have an edge.

We need chicken thighs.

There is a reason why meat is in the back right hand corner and dairy is in the back left hand corner, which is to try to pull us as deep in the store as possible under the basic premise that the longer somebody holds you is the more likely that you are to purchase more product.

Of course, there are lots of items to pick up in the aisles. Cheerios, paper towels, Yummy brand hard dough bread, salt, Ting, almonds.

Another customer tips me to a deal on frozen pizza.

The organization of each shelf is subject to negotiation between the grocer and the manufacturer so that the most popular and most expensive items tend to be located at eye level.

OK, I'm done.

Probably the most frustrating part of our grocery experience is standing in line at the register. We in the United States trail the world in checkout technology systems.

Then Paco Underhill starts talking about a supermarket in Stockholm called Ica. He says Ica is very high tech, much more advanced than grocery stores in the U.S. The chain runs promotions that allow shoppers to use their Facebook accounts to get lower prices.

For the most part, this basic supermarket design was formulated in the 1930s. With time though, it's become more sophisticated. The placement of every product, shelf, display is subject to some form of sale or negotiation.

WLRN's *The Sunshine Economy* will devote an hour to the grocery store business in South Florida. Tom Hudson hosts. We'll talk about everything from the new Trader Joe's in Pinecrest to the desert for supermarkets in Broward County. That's today, October 28, at 9:00 a.m on 91.3 FM.

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Retail customer experience .com

Report points to the ROI of store remodels

A new study, published in **the May issue of the American Marketing Association's Journal of Marketing**, points out both the need for and the benefits of store remodeling projects.

Each year millions of dollars are spent to create and/or remodel retail store environments to influence customer behavior. This is expensive business with "the average total store remodel today costing $3.5 million for décor, equipment, fixtures and labor. Add in lost sales during the remodel period and the loss from markdowns and remodels ends up costing approximately $3.7 million per store." (Weitzel 2010). For retail chains with hundreds of stores, the cumulative costs are substantial.

Monash University marketing researchers found that sales increase after retail store remodeling, and this increase lasts an entire year. In an even more striking result, researchers found that the sales increase is much more substantial for new customers compared with existing customers. In a small independent retail store, the sales increases in the year after the remodeling were 43 percent for new and 7 percent for existing customers. For a large multi-store retailer the contrast was similar, 44 percent for new and 10 percent for existing customers. Even more impressive is that between 30 percent and 80 percent of the growth in sales revenue after remodeling is attributable to new customers.

It is also found that new customer visits to the store were 16 percent higher after their first purchase in the remodeled store, whereas the rate of visits for existing customers only increased by 2 percent. Finally, both retailers recouped their remodeling costs within two to three years — much less than the average time between remodels of seven to 10 years.

Topics: Consumer Behavior, **Point-of-Purchase / POP**, **Store Design & Layout**

Why supermarkets need to stay on top of refrigeration maintenance

Of all the assets that supermarkets need to utilize during routine business operations, perhaps none are more important than the store's refrigeration system.

Of all the assets that supermarkets need to utilize during routine business operations, perhaps none are more important than the store's refrigeration system. Not only is it the most energy-intensive part of the store, but a significant portion of the inventory depends on being properly refrigerated.

Improper maintenance of refrigeration units can lead to an array of problems for supermarkets, so management needs to put a special emphasis on this asset class to ensure that customers are satisfied, costs are contained and regulatory guidelines are adhered to.

"Noncompliance with health standards can lead to legal trouble as well as reputational damage."

Much of what a supermarket sells depends on reliable refrigeration. Effective asset management can help ensure maximum uptime for this critical equipment.

Food safety depends on fully operational refrigeration units

Produce, frozen foods, meats, seafood – all of these and more require round-the-clock refrigeration to ensure the products are safe for consumption.

Food spoilage is obviously a key concern for supermarket managers, but food contamination can also create major safety hazards as well. Broken air filters and antifungals can allow mold and bacteria to get on the products and cause sickness in those who ingest them. This can be devastating to the offending supermarket, as there is a considerable push for cleanliness coming from regulatory bodies today. Noncompliance with health standards can lead to legal trouble as well as reputational damage, since the results of inspections can and will be made public.

"The Center for Science in the Public Interest makes the results of the health department inspections more public. We believe the transparency of those results…will serve as an incentive," Sarah Klein, senior staff attorney for the Center for Science in the Public Interest's Food Safety Program, said to Food Quality and Safety.

Downtime that leads to food spoilage or under maintenance that creates conditions for mold to grow is unacceptable here for both the customers who rely on their local supermarket and the business itself.

Saving energy and money

In many verticals, there is a concerted effort to make operations and equipment more energy efficient. While some businesses have looked at this as just another operating cost, others have seen it as an opportunity to position their businesses for success now and in the future. Reduced energy bills, a more positive public perception, and regulatory compliance are all benefits of an energy-efficient operation.

Supermarkets, in particular, are catching onto this and are upgrading to energy-saving refrigerators. This makes a lot of business sense for them: A study from the U.S. Department of Energy found that 50 percent of a grocery store's energy costs come from refrigeration alone. That's why many supermarkets across the U.S. are cutting costs by investing in new refrigeration systems that can take a bite out of their biggest expense. Supermarkets across the country are taking note and upgrading their old systems to new ones – a change that will affect the way building managers handle maintenance moving forward.

The difference between the new low-energy units and the old ones is the type of refrigerants used inside of them. Older models use what are known as hydrochlorofluorocarbons, a known pollutant that has been banned in the manufacture of new refrigerators. The new models use a CO2-based refrigerant system that will require most supermarkets to overhaul their buildings, as well as bring on new equipment with its own needs.

"New refrigerators must be treated as an entirely novel asset class."

Product safety and energy savings start with smart asset management

The takeaway here is that new refrigerators must be treated as an entirely novel asset class. They have component parts and maintenance requirements that are all their own, and must be managed accordingly. Blocked lines, refrigerant leaks, broken or clogged air filters can greatly diminish the effectiveness of a refrigerator, so it's important to have a close eye on the condition of the units.

An asset management program is essential for guaranteeing the reliability of refrigeration assets in a supermarket. Predictive maintenance, a pillar of asset management today, can help managers maintain near-perfect levels of uptime. This is important for grocers, as downtime that leads to food spoilage or under maintenance that creates conditions for mold to grow is unacceptable here for both the customers who rely on their local supermarket and the business itself.

Supermarkets invest in new refrigeration to save money, and so their asset management program should facilitate those cost savings. For example, predictive maintenance does just that: Rather than use the imprecise methods of fixed-time maintenance, supermarket managers can turn to condition-based maintenance schedules. These make use of extensive amounts of performance data that can let managers know exactly when the refrigerator needs to be repaired, ensuring that they don't break before they're fixed, or be maintained when they don't need to be.

Energy savings and regulatory compliance are of the utmost importance, and they come from the careful and thorough management of refrigeration assets. Supermarkets looking to modernize their buildings would be wise to incorporate an in-depth asset management program to go along with their new equipment.