



Shelf Health in US Grocery Retail

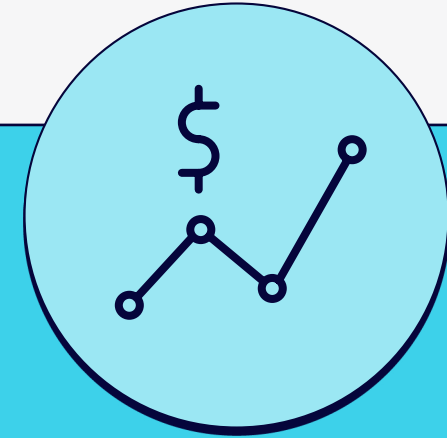
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Introduction

In the first half of 2023, Retail Insight conducted a study into the health of store operations within the US grocery retail market. Our research was specifically targeted at gaining an understanding of how retailers were dealing with surplus food waste and managing product availability – two key areas of operational excellence.

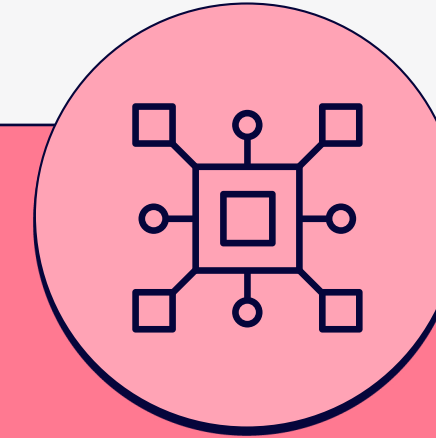
This research comes at a time when optimizing retail operations is more challenging than ever.



On a macroeconomic level, **inflationary pressures** continue to trouble retailers globally as value growth (largely driven by price increases) is offset by declining volumes.



Supply chain challenges, whilst less disruptive than during and directly post-pandemic, threaten the success of grocery retailers as availability issues impact shopper satisfaction, loyalty, and sales.



There is a growing **abundance of new technological solutions** within the retail store box, much of which is highly ambiguous and is creating even more complexity for retailers to manage and effectively leverage.



Labor continues to pose significant challenges for both grocery and non-food retailers, as high staff turnover rates and rising labor costs impede growth, profitability, and customer experience.

In visiting

54 retailers across **263** stores in **39** different states,

we obtained a comprehensive overview of shelf and store health across the US grocery market. This research is designed to inform, highlight, and suggest solutions to the most significant challenges that food retailers are facing in 2023 and beyond.



Overview of Food Waste Management Practices

34 million people in the United States are food insecure.¹ Food insecurity is defined by the United States Department of Agriculture as “the lack of access, at times, to enough food for an active, healthy life”.

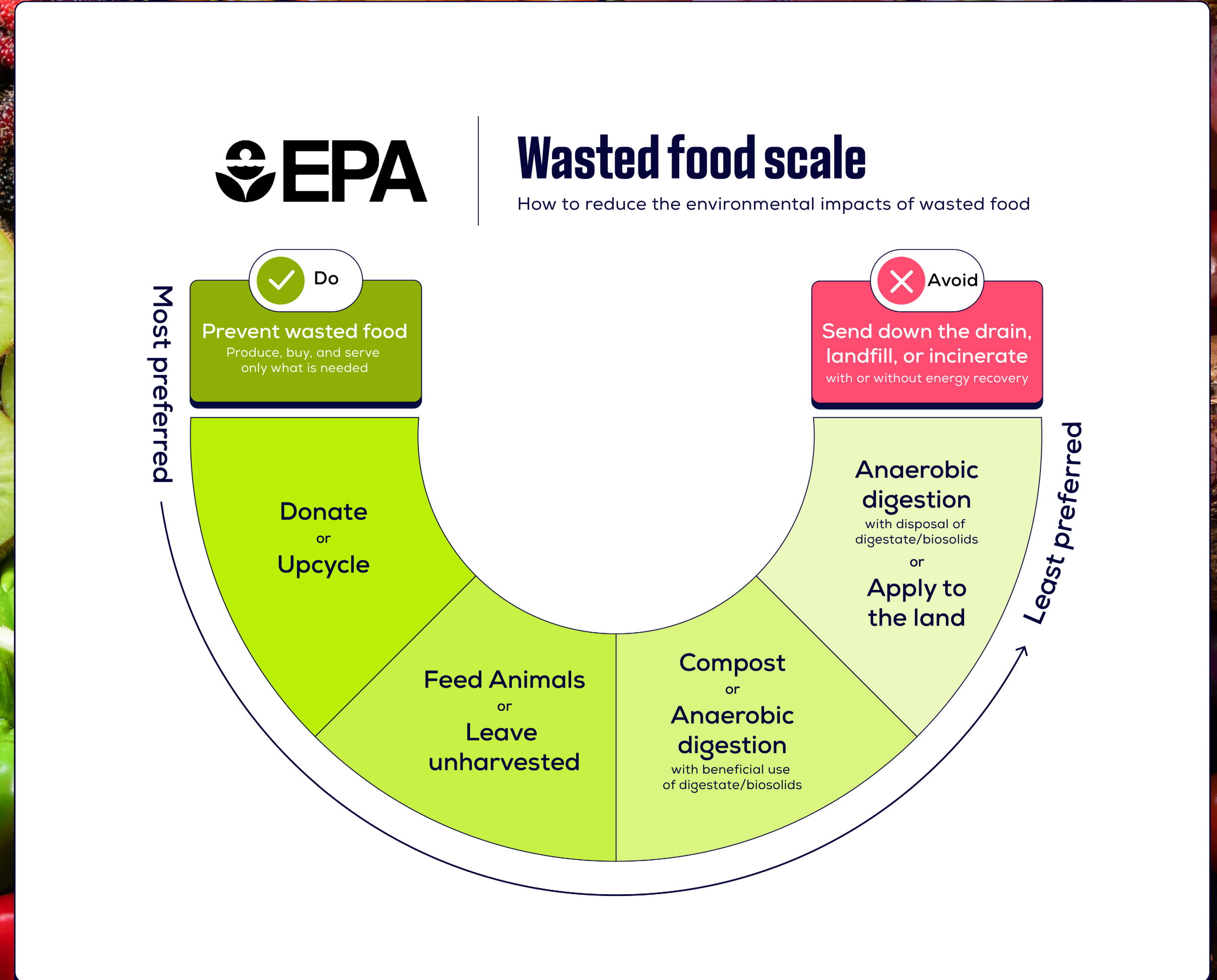
Yet, an estimated 9.6 billion pounds² of food is wasted at grocery stores in the US every year. This disparity between the levels of food insecurity versus the volume thrown away is astounding, indicative of a systemic ‘attitude problem’ in the handling of surplus food. At the store level, demand forecasting and in-store replenishment processes are often blamed for the excessive amounts thrown into landfill, incurring significant and multi-tiered costs (i.e., supplier, labor, waste disposal). This demonstrates that, whilst effective food waste management is key to increasing access to nutritious food, it is also crucial in any cost reduction strategy.

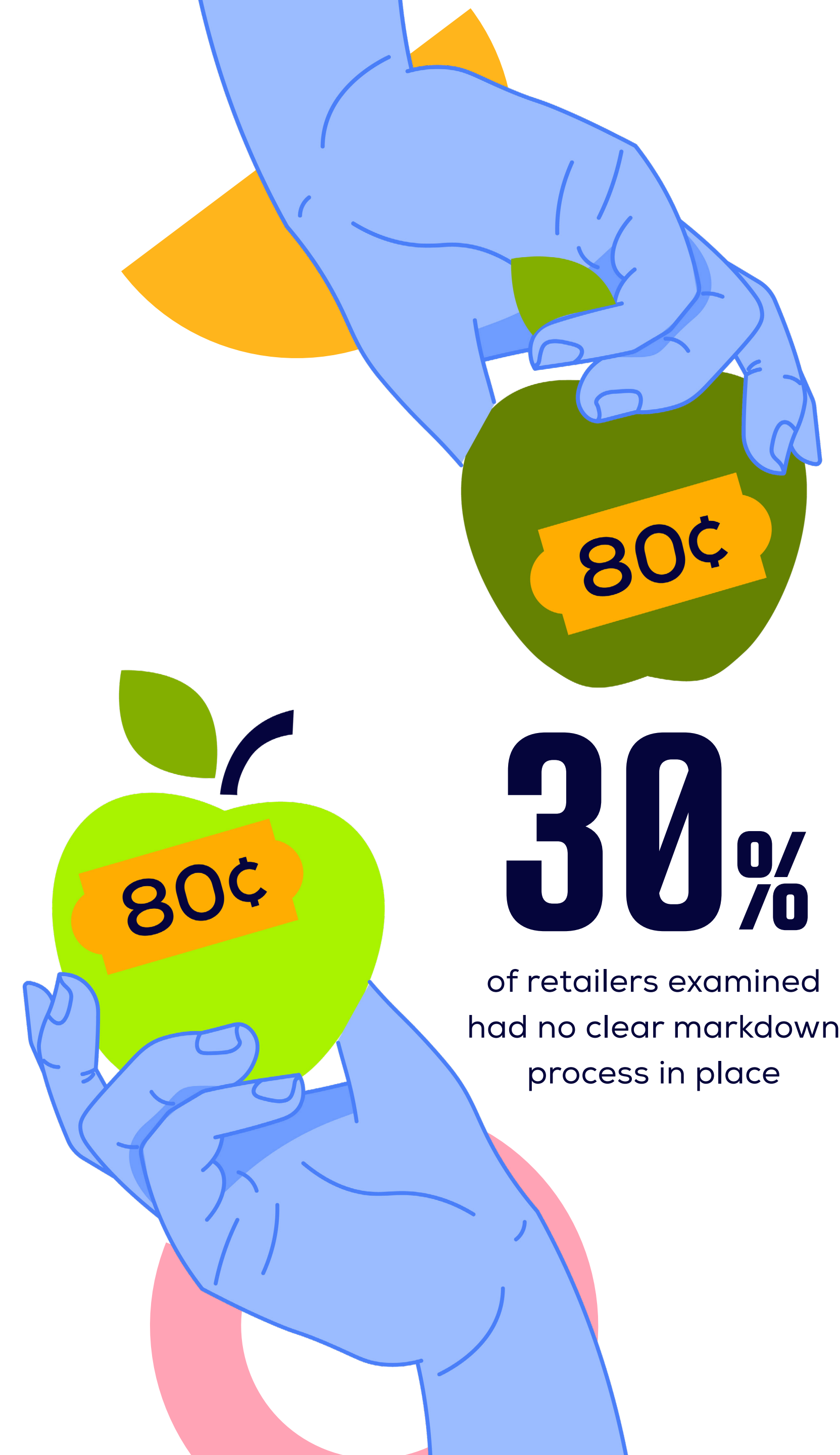
If we examine the EPA Food Recovery Hierarchy, **Reducing the volume of surplus food generated** is presented as the preferred way to prevent food wastage because it “creates the most benefits for the environment, society, and the economy”.³ One way to achieve this is through the implementation of an effective product markdown process, such as the one our WasteInsight solution enables.

¹ <https://www.feedingamerica.org/hunger-in-america>

² <https://www.forbes.com/sites/stevensavage/2022/10/12/a-company-offers-an-alternative-to-food-waste-at-the-grocery-store-level/?sh=352f45dc56f1>

³ <https://www.epa.gov/sustainable-management-food/food-recovery-hierarchy>





As a refresher, a markdown – or expiration date-based discounting – is where products nearing end-of-life are discounted to encourage customers to buy them and avoid disposal. It is a simple and effective way for retailers to reduce surplus food waste, maintain product margin, and increase the sales of expiring items. There are two main approaches to markdowns – firstly, a dynamic model, which produces a price that optimizes the chance of sell-through and maximizes the margin captured to achieve the price ‘sweet spot’. A markdown process is said to be static when the discounted prices are not optimized for volume or profit maximization, for example, \$1 or 50% off.

Retail Insight conducted research into markdown processes within the US grocery retail landscape – [first in 2020](#), and more recently earlier this year. In 2023, our research found that **30% of retailers examined had no clear markdown process in place**, representing a **4% decline in terms of retailer engagement with a markdown strategy since 2020**. In choosing not to implement a markdown process, retailers are failing to benefit not only from **improved profit margins** but also from **expediting ESG results**.

Of those retailers at which markdowns were observed as part of our 2023 Shelf Study, just **42%** had applied dynamic markdown principles to their price reduction strategies (vs. **20%** in 2020). Whilst the uptick in engagement with dynamic markdown processes is an encouraging indication of retailer willingness to innovate and move from static to dynamic processes, the number of retailers that do not discount at all is still much higher

than it should be. The remaining 58% had engaged with static markdown processes – either marking their items down in non-dynamic increments e.g. 25%/30%/50% or using flash labels (\$1/\$2/\$5 off) to encourage their customers to buy near-expired products.

These statistics – whilst surprising, particularly when juxtaposed against more waste-conscious European retailers – are suggestive of the **opportunities that exist for dynamic markdown solutions to contribute to the fight against food waste** – enabling shoppers to avail of lower prices and unlocking considerable cost savings for retailers.

If we look at markdown tactics across the Atlantic – comparing the US with the UK in particular – we can observe a pattern of readiness among grocery retailers to adopt and benefit from dynamic markdown solutions. Almost all of the UK’s top grocers engage with dynamic markdown processes⁴ across their fresh food categories, collaborating with the likes of [WRAP](#) to make tangible contributions to national food waste reduction strategies. US grocers would do well to consider the same, in doing so helping to change customer perceptions relating to the purchase of near-expired items. Of over 1,000 US consumers surveyed on Retail Insight’s behalf earlier this year, 79% claimed that they have tried to be more sustainable with their consumption habits in the last 12 months. However, just 33% of those respondents stated that they had purchased discounted goods to reduce food waste – indicating a stark contrast between attitudes to markdowns in the US and the UK (47%).

⁴ The real lowdown on markdowns: current practices and smart solutions. Retail Insight, 2020.





State of Product On-Shelf Availability

Product availability is a universal challenge for retailers – how do you ensure that customers can buy the items that they want, whenever they want?

Inferior on-shelf availability – when items are unavailable, hidden, or damaged – can cost retailers up to **8% of revenue through lost sales**, creating repercussions for both the top and bottom lines. Aside from these financial implications, not being able to buy the products you want in-store is a key driver of customer dissatisfaction and competitive switching.

With the impact of in-store product availability extending well beyond the **costs of losing customers and sales**, retailers battling with availability issues are investing significantly in labor to try and tackle the issue. However, as well as manual gap scan checks being ineffective and inaccurate, retailers are having to grapple with high employee churn and rising personnel costs amidst a difficult recruiting environment.

Grocery retailers in the US appear to be especially suffering with availability at the moment – **empty shelves were observed in every store we visited**, with all 263 outlets featuring endless products out-of-stock. At an individual store level, availability issues pervaded throughout multiple departments

including Produce, Deli, Fresh Meat & Seafood, and Dairy & Eggs. Poor item availability is never ideal, but in experiencing it within key battleground departments such as Fresh and Produce, retailers risk heavily impacting the customer experience and seeing revenues suffer as a result.

Solving these in-store issues becomes even more important when reviewing what customers think. Recent consumer research conducted by Retail Insight outlined the importance of optimum product availability to US grocery shoppers; **21%** of those surveyed agreed that automated replenishment technology that alerted staff to shelf gaps would improve product availability,⁵ whilst **30%** stated that they would question whether to keep shopping (at a particular grocery store) were out-of-stocks to become a regular occurrence.⁶ As competition for customers intensifies, grocery retailers will soon start to feel the effects of **shopper migration** if they ignore the warning signs that are already flashing before them.

⁵ Consumer Research conducted among over 1,000 US adults on behalf of Retail Insight by Savanta in June 2023

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Conclusion

Playing in the US grocery retail market in 2023 is arguably tougher than ever, and our research shows that **stores are struggling to serve shoppers in the way that they were designed to do so.**

This difficult operating environment looks unlikely to improve in the near future. The macroeconomic situation within the US remains challenging, with high inflation, in particular, continuing to be a complex issue – this will have a direct impact on any reduction in the tightness of the labor market as well. Technology adoption will only expand, just as supply chain pressures will intensify as climate and geopolitical conflicts continue onwards. **Simply put, retailers cannot afford not to address these challenges.**

As the environmental and socioeconomic effects of food wastage continue to be felt across the US, grocery retailers should take the benefits of a dynamic markdown solution into serious consideration. There exists a significant opportunity for the 30% of grocery retailers that are not currently deploying discounts to reduce food surplus, recover lost sales (through marked-down items that would otherwise have been thrown away), and drive customer satisfaction by providing dynamic prices on expiring items.

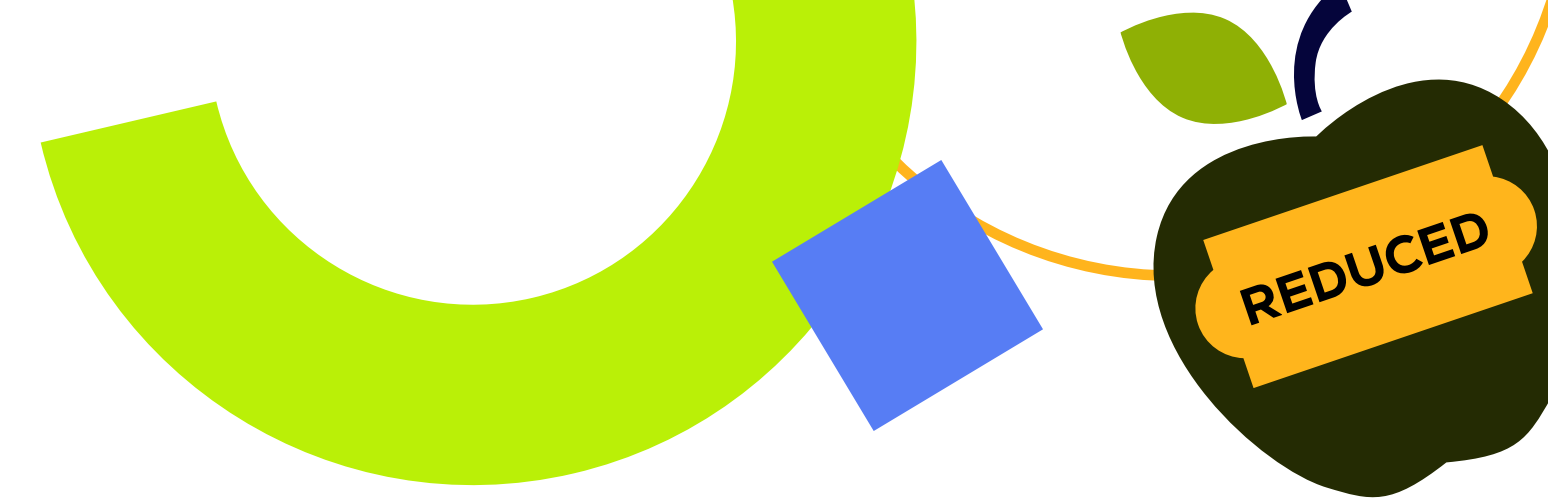
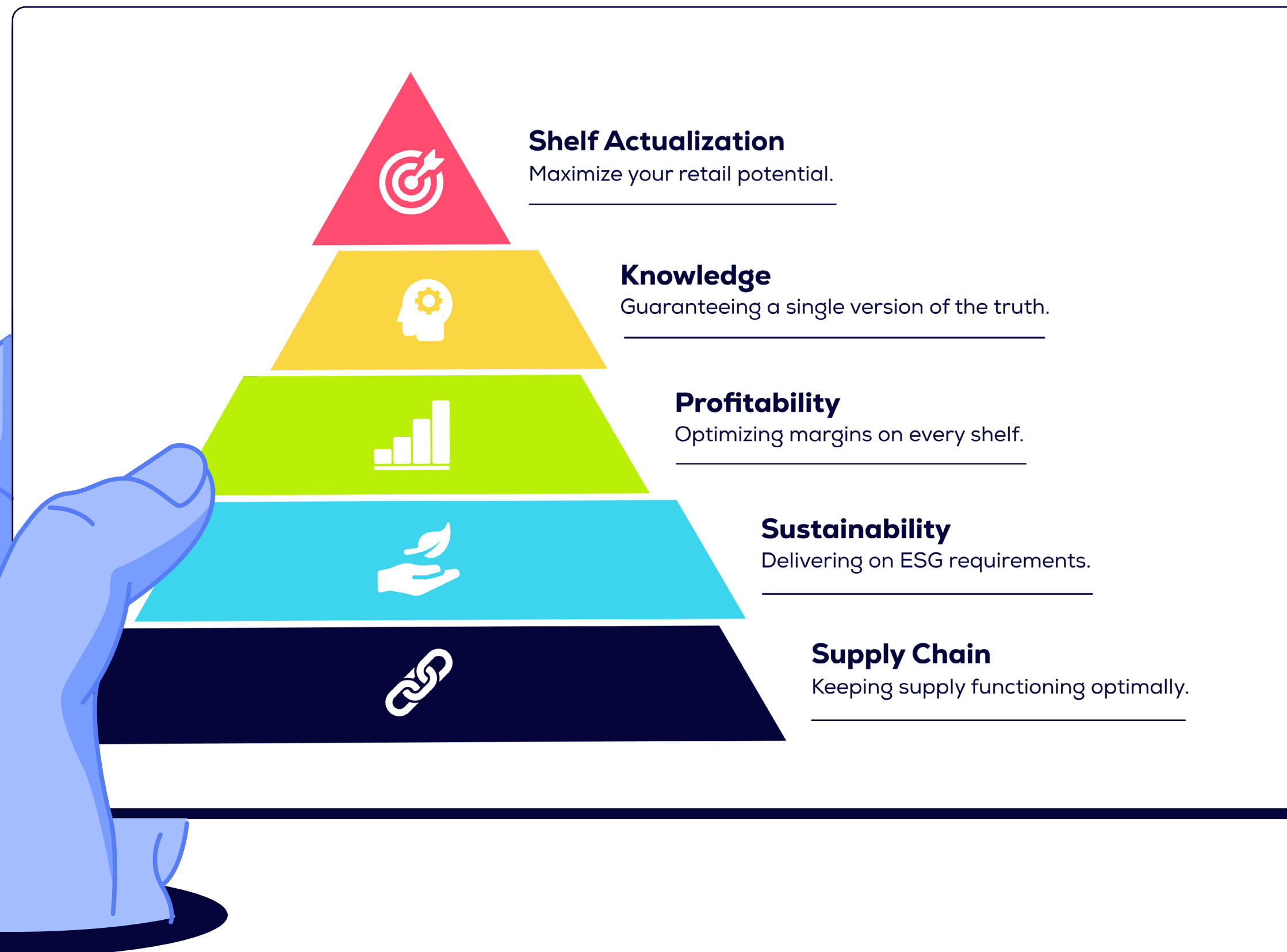
Where product availability is concerned, retailers need an automated way to monitor and reduce out-of-stocks, eliminating the labor-intensive gap scan process. The deployment of a data-driven solution would provide stores with a comprehensive view of what their shoppers are seeing on shelves that shows where, when, and why items are unavailable. Stores can then receive highly-targeted availability alerts for associates to know where to focus their attention and intervene. Such a solution would minimize out-of-stocks, increase sales, and free up associates to sell and serve to customers.



Shelf Actualization

With both an effective food waste and product availability management strategy in place, US retailers are much more likely to achieve '**Shelf Actualization**' – a concept defined by Retail Insight as the gold standard of retail execution.

Shelf Actualization occurs when retailers excel across four performance areas:



When retailers meet the needs of all four levels, their shelves reach their maximum potential – with the right items always available, products marked down at the right time, and minimal stock going to waste.

By contrast, stores that aren't Shelf Actualized will tend to see many of the symptoms highlighted in our research, including:

- **Manual, de-centralized markdown processes**
- **Lack of root cause insight for solving availability issues**
- **Shortage of actionable data causing store associate inefficiency**
- **Conflicting data sources preventing a single version of the truth**

To measure Shelf Actualization, Retail Insight have developed a Shelf Actualization Index, which retailers can use to quickly gauge their performance and see how close they are to achieving the gold standard.



To access the Shelf Actualization Index visit:
shelfactualization.retailinsight.io



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