

Maximizing grocery profitability with true net cost data intelligence



Thriving in a shifting grocery environment

In a changing retail environment, competitive grocery merchandisers are making bold strides to strengthen commercial offerings to meet the diverse needs of today's consumers, delivering both value and premium products, in-store and online. To do this among rising inflation, supplier costs and funding complexity, it's critical for grocery merchandisers to see the true cost of goods to protect margins. But with such complex data, across systems and regions, seeing the full picture for many grocery retailers is easier said than done.

In this whitepaper, **Maximizing Grocery Profitability with True Net Cost Data Intelligence**, we show you how to gain visibility of true net costs, considering sales, costs and item-level funding at a granular level. We'll outline how to use data intelligence to identify opportunities for improving promotional efficiency and vendor performance, so grocery businesses can achieve complete clarity for negotiations and growth.



WE WILL ALSO EXPLORE:



TRUE NET COST AND MARGIN INSIGHT:

Granular visibility into product and vendor performance



TECHNOLOGY AND ANALYTICS:

Integrating complex data into a unified view



USE CASE EXAMPLES:

The path towards opportunity identification



Granular visibility into product and vendor performance

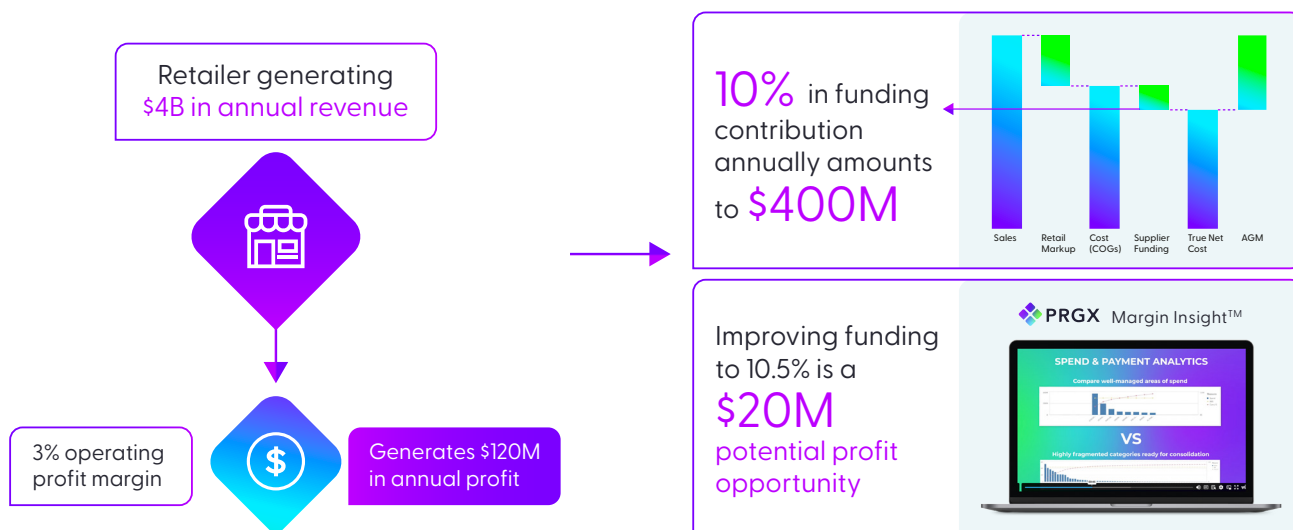
WHAT IS TRUE NET COST?

The net or “true” cost of an item is the gross invoice cost minus trade funding contributions made by the supplier.

When evaluating margin, the default measurement is to subtract cost from the sale price. And too often, this is where the margin calculation stops, with granular details at the sub-category, vendor or even item level inaccessible. Whether it's because the additional necessary data isn't available or the time and resource to get to the true margin is too costly.

However, to gauge the true net cost and margin of product sales, retail businesses must include trade and promotional funding into the mix. Due to the variety, timing, types, different data sources and methods of collection, correctly applying promotional funding to the product margin is often a challenge, but absolutely critical to profitability actions.

MARGIN INSIGHT ENABLES REASONABLE PERCENTAGE COST IMPROVEMENTS THAT HAVE A MEANINGFUL PROFIT IMPACT!



The diagram above shows that a small improvement in funding contribution from 10% to 10.5% could potentially result in a \$20 million profit opportunity, while driving incremental sales.





MARGIN INSIGHT

It is critical to accurately apply all funding elements to each individual product, vendor and category.

In addition, an experienced partner can provide a wealth of insights that unlock hidden opportunities, like funding and margin uplift to historic performance, category performance improvement, cost changes and shifts between regular and promotional sales mix, to help maximize your sales and margin.



TECHNOLOGY AND ANALYTICS: INTEGRATING DATA INTO A UNIFIED VIEW

It's important to seek out an analytics partner that maintains a purpose-built mass data technology platform which allows them to quickly ingest an enormous amount of data in a scalable way. This partner should be focused on helping you analyze and visualize the data available to give you a better understanding of your sales, cost, funding and margin performance.

PRGX's Margin Insight has access to product level detail, supporting actions and negotiations at the most granular level with true net cost and margins.



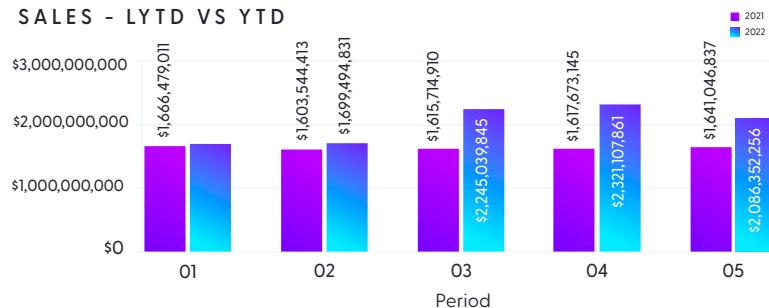
Year-over-year funding in detail

YTD 2022 RESULTS:



SO EVERYTHING IS GREAT RIGHT?

SALES - LYTD VS YTD

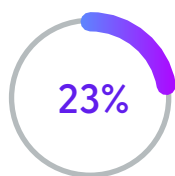


AGM SCORECARD

Level	2021 LYTD	2022 LYTD	Delta(\$)	Delta(%)
Sales	\$8,144,458,316	\$10,038,670,646	\$1,894,212,330 ▲	23.26% ▲
Sales Qty	2,789,198,053	2,641,755,433	-147,442,620 ▼	-5.3% ▼
Cost	\$6,900,544,596	\$8,179,933,252	\$1,279,388,656 ▲	18.54% ▲
Off Invoice	\$183,919,676	\$230,133,863	\$46,214,186 ▲	25.13% ▲
Initial Margin	\$1,427,833,397	\$2,088,871,256	\$661,037,860 ▲	46.30% ▲
Scan Downs	\$487,997,089	\$480,416,118	-\$7,580,971 ▼	-1.55% ▼
Bill Backs	\$180,807,785	\$215,566,035	\$34,758,250 ▲	19.22% ▲
Gross Margin	\$2,096,638,271	\$2,784,853,409	\$688,215,139 ▲	32.82% ▲
Flat Funding	\$276,988,188	\$275,098,622	-\$1,889,566 ▼	-0.69% ▼
Adj Gross Margin	\$2,373,626,459	\$3,059,952,031	\$686,325,573 ▲	28.91% ▲
AGM%	29.14%	30.48%		1.34% ▲

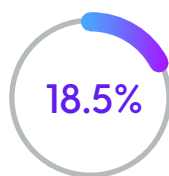
The bar chart on the top right represents a year-over-year comparison of the first five periods of 2022 (blue) against the same periods in 2021 (purple). In this example, inflation rose in 2022 pushing retail prices higher. As a result, sales for retail/grocery businesses spiked, however, what happened to sales quantity/tonnage?

SALES



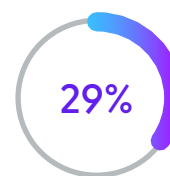
Overall, sales increased 23% over the first five periods of 2022 versus the same periods in 2021.

COGS



And of course, as sales rose, so did the cost – in this case an 18.5% increase.

AGM

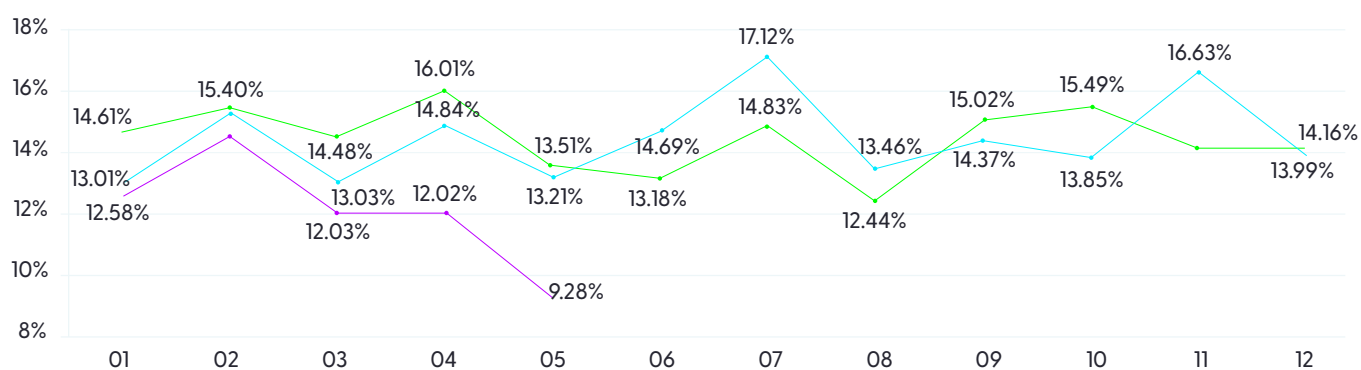


Lastly, the overall margin rose 31%.



Getting granular

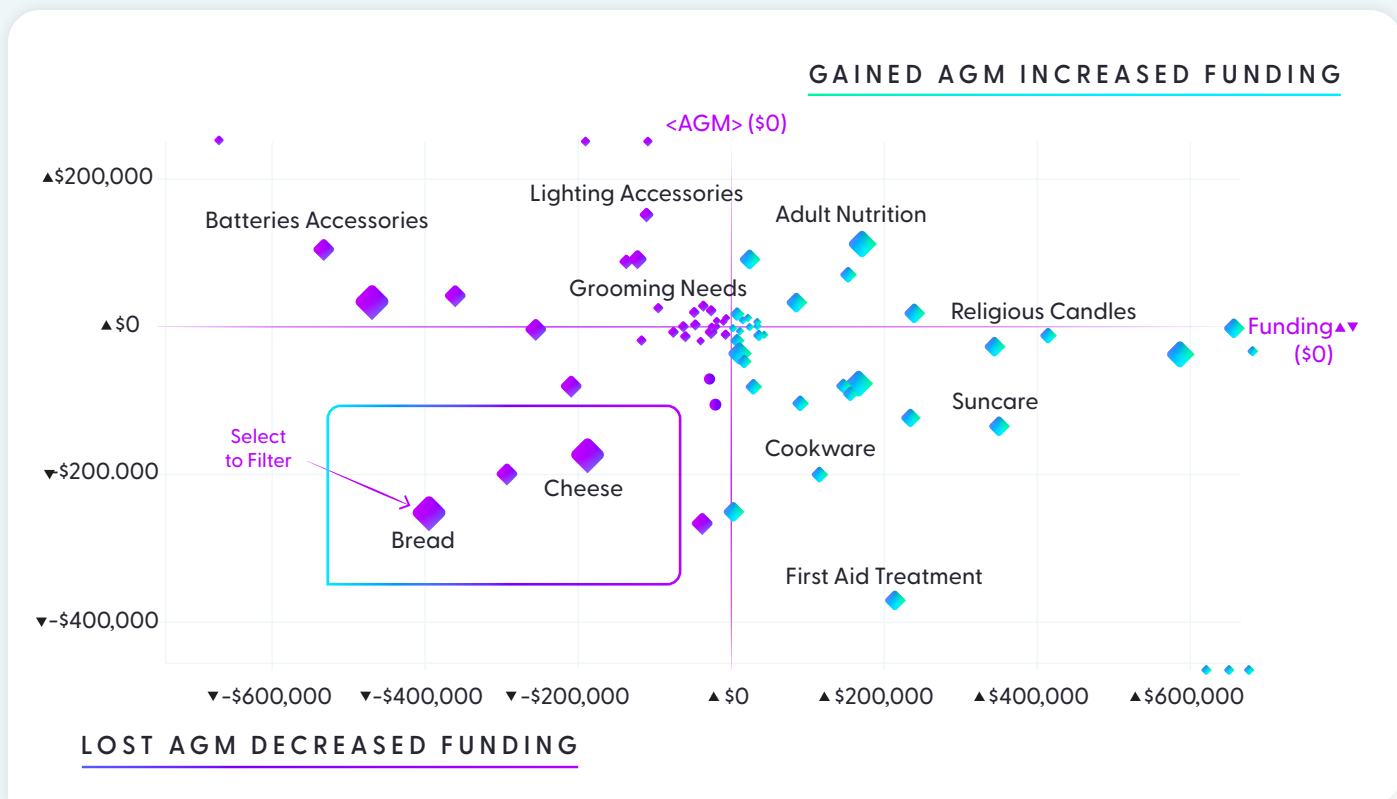
When looking at the scan down and flat funding allowances, not only did they not rise along with sales; it actually decreased year-over-year. While rising sales and costs should raise funding, in this case we can start to see that there are some areas of opportunity that can be uncovered beneath the surface. If these funding types increased could there have been gains on quantity and tonnage?



In the above diagram, you can see the 2022 funding rate in purple is dramatically lower than the same periods from the previous two years. This is an introductory view into funding that is critical in comparing the year-over-year funding rates for each product, vendor and category.

Whereas dramatic changes in sales can hide actual changes at the unit or dollar amount level, an accurate insight into true cost and margin can highlight where performance requires attention and action.

Category and vendor margin rates over time



There are many different ways the platform highlights opportunities across categories and vendors, but above is a highly visual clue to highlight the key actors. This graph shows the relative rate change of each category from one year to the next regardless of the large sales shift.

On the right side of the graph, in green you have all the categories that have a higher margin rate than the year before.

On the left, lower margin rates. Above the X axis, the top represents funding rates that are higher than last year, while below represents lower funding rates. The size of the diamond represents the size of impact.

On the graph, Bread and Cheese were quickly identified as two large categories with a decrease in funding and margin rates. With this information, we can dive into which vendors and UPCs are in these categories to identify exactly who and what are contributing to these changes.



SUMMARY

Gain true clarity with PRGX margin insight

Rising inflation, supplier costs and consumer needs have made it even more critical for grocers to gain full visibility of data and see the true cost of products to strengthen margins.

PRGX's Margin Insight empowers grocery merchandisers with granular supplier profitability intelligence to achieve true clarity for negotiations and growth.

We leverage our SaaS data intelligence platform and **50+ years of industry learnings** from retailers around the world to help you.



GAIN VISIBILITY OF TRUE NET COST

With a singular global view across systems and regions, considering sales, costs and item-level funding at a granular level for visibility of true net cost.



STRENGTHEN SUPPLIER NEGOTIATIONS

PRGX data intelligence reveals hidden insights into supplier profitability, category and item performance, identifying margin growth opportunities and recommended action.



DISCOVER MARGIN GROWTH OPPORTUNITIES

With a unified view of supplier, category and product performance, including accurate trade funding data, PRGX provides the insights for effective, intelligence-led strategies and decision making.

TO LEARN MORE ABOUT MARGIN INSIGHT OR SCHEDULE
YOUR PERSONALIZED DEMONSTRATION VISIT:



www.prgx.com

