

# The Problem



## Perception

Reed's prices are seen to be too high, and their superstore layout and "dollar deal" advertising campaign is inconsistent with the high quality, superior customer experience they claim to uphold.



## Growth

Given that Reed has faced stagnant growth of market share over the past 2 fiscal years, the company must look for new ways to increase traffic in stores and encourage consumer loyalty in order to improve growth.



## Position

Reed must establish a unique place in the crowded food shopping market. Currently casting too wide a net, it must clearly identify its target market and desired brand image, and carry inventory that supports this image and meets the needs of its potential customers.

**Underlying Problem:** How can Reed unify its advertising, product line, pricing strategy, and in-store experience in order to increase market share and assume a cohesive **brand identity**?

# The Recommendations

## Consistency

- Create a **niche marketing campaign** featuring specific categories without cheapening brand image with consistent sales
- Create **new a store layout** that fully reflects the high-end products and services, the superior shopping experience and the overall quality brand that Reed wants to establish

## Brand Loyalty

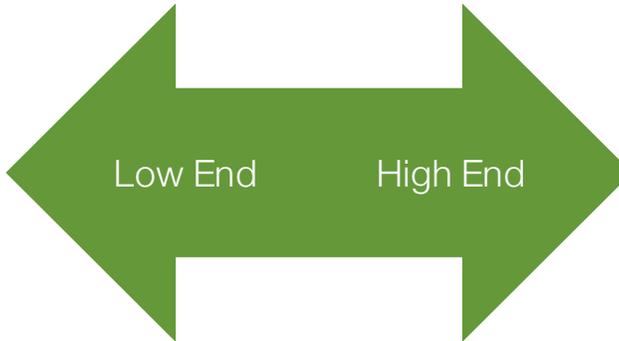
- Introduce a **loyalty points** program to provide discounts for regular consumers, improving brand loyalty, and maintaining a high quality brand image
- Create a **consumer-based experience**, requesting feedback from customers and implementing suggestions in stocked inventory
- **Eliminate unnecessary costs** such as excess staffing to allow for investment in more relevant areas

## Identify Brand Position

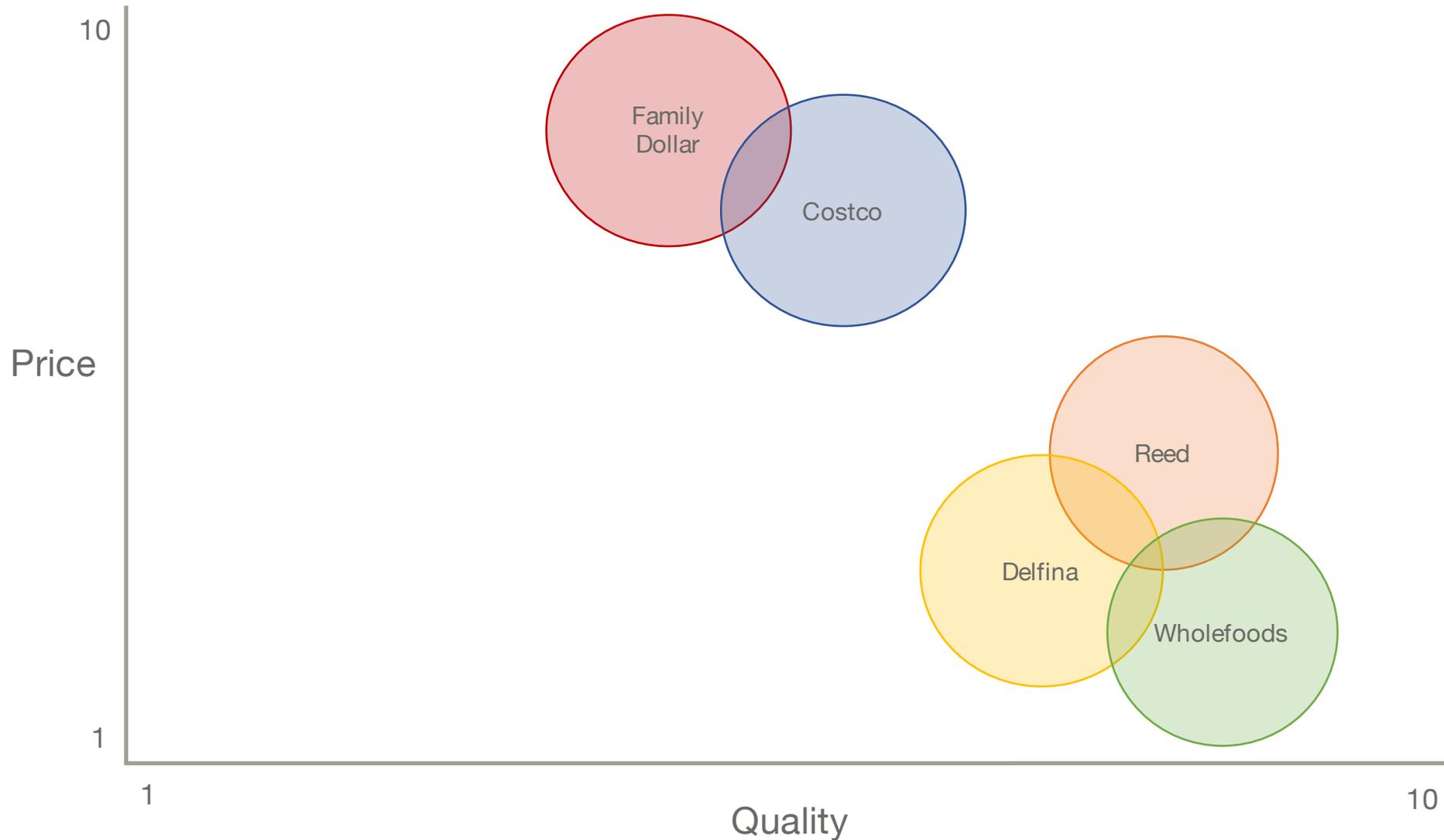
- **Identify clear target market** of middle – high income households who value quality of products and typically entertain on a frequent basis
- **Eliminate inventory that is inconsistent with brand image and are likely to be purchased at discount stores**, focusing instead on high quality, fresh, and unique products

**What This Will Address:** Reed needs to solve their **identity crisis** by establishing a strong customer base, an identifiable brand, and a clear competitive advantage to separate them from their competition in a diluted market

# Competitor Analysis

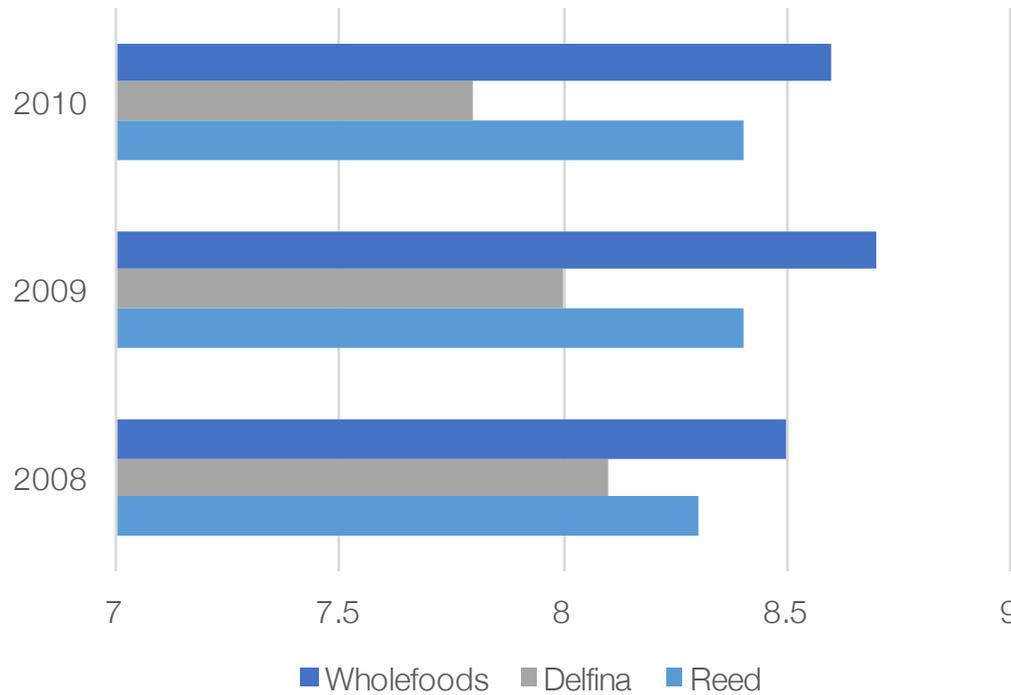


# Market Segmentation



# Competitor Analysis

## Perceived Quality



## Perceived Price



**Key Takeaway:** Reed surpasses Delfina in perceived quality and both Wholefoods and Delfina in perceived price

# Perception: **Consistency**

## Niche Marketing Campaign



1

Provides opportunity to **promote new or underselling products** without losing margins from discounting

2

Implement a “monthly feature” to **draw consumers without cheapening brand** with constant sales

3

Interaction with consumers through customized marketing and in-store samples **creates an emotional connection and incentive to come** to the store

# Perception: **Consistency**

## Store Layout



1

Clear and compartmentalized layout creates an **easier and thus more pleasant shopping experience**

2

Increases **traffic throughout the entire store** location

3

Differentiates Reed from the competition by **creating a new atmosphere that enhances the shopping experience**

# Growth: **Brand Loyalty**

## Rewards Program



1

Offer loyalty points program to **provide consumers with the deals** they desire as 55% of consumers who do not shop at Reed attributes it to their high prices

2

While it offers items at a discounted price, it **maintains a high quality brand image** as the sales are seen to be exclusive and earned

3

**Promotes customer loyalty** as they feel they are part of a select group and it allows them to apply the discounts to the items they desire, not what is on sale that week

# Growth: **Brand Loyalty**

## Consumer Based Experience



1

Increases brand loyalty as **consumers feel more involved and valued** when they have a say in what is stocked on the shelves

2

Helps Reed **identity items that are in high demand** to help guide future orders for inventory

3

With guaranteed demand from customers, it encourages **faster turnover rates** and therefore **improved sales revenue**

# Growth: **Brand Loyalty**

## Eliminate Unnecessary Costs



1

Eliminating costs such as over-staffing at the check out, free cookies, and complementary bag transportation, it will cut costs to **allow for investment in new areas**

2

Eliminating costs provides Reed with the **opportunity to lower prices**

# Position: **Identify Brand Position**

## Identify Target Market



1

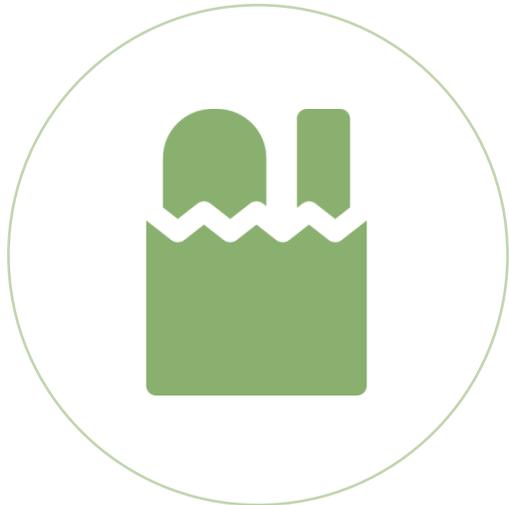
Target market of consumers with a **middle-upper level income** that have an interest in **food quality** and often **entertain**. **When you target too many people, you actually limit your consumer base**

2

Allows for targeted promotion strategies, advertising channels and product selection, ultimately **reducing the cost associated with casting too wide of a net**

# Position: **Identify Brand Position**

## Careful Inventory Selection



1

**Minimizes cost** associated with stocking unsold inventory

2

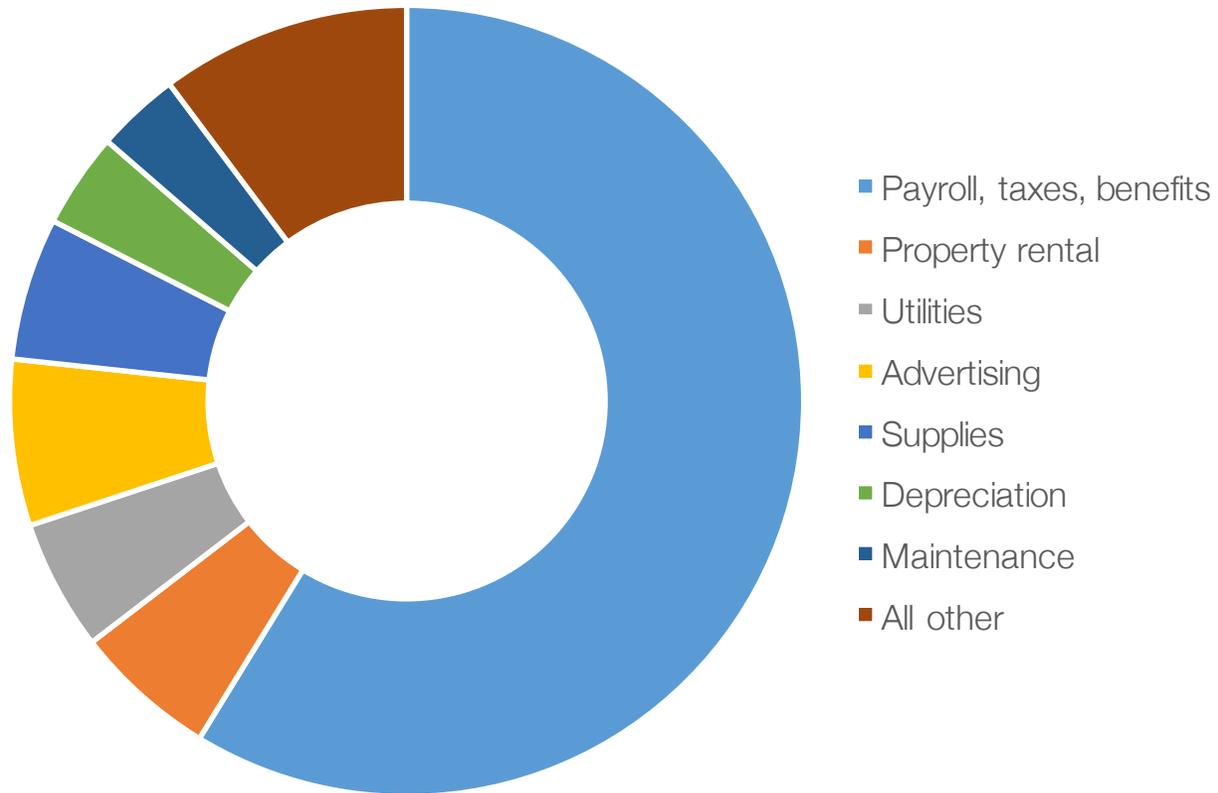
By eliminating inventory such as cleaning supplies, toiletries and the pharmacy counter, it **solidifies Reed's brand image**

3

By getting rid of goods typically sold on discount with lower margins and focusing on goods with higher margins, it will **improve profitability**

# Budget Breakdown

## Current Expense Allocation

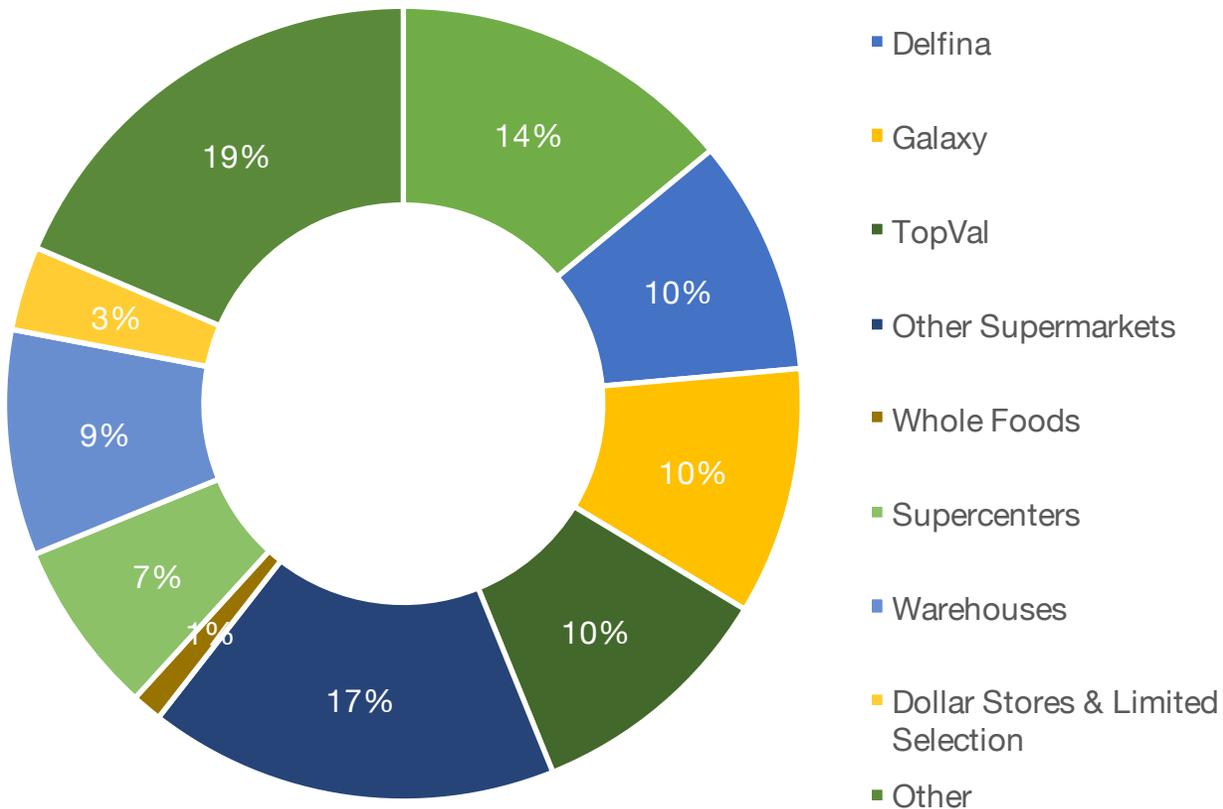


**\$79,860,000** spent in 2010 on payroll, taxes and benefits

**\$9,240,000** spent in 2010 on “dollar deal” focused advertising campaign

# Market Breakdown

## Market Share



Median household income in Columbus is **\$52,000, 11.6% higher than the state average**

Reed currently captures 14% of the 2,000,000 population in Columbus, **approximately 280,000 consumers**

\* Approximation as it is assuming that 100% of the population buys groceries

# Implementation **Timeline**

## Step 1



**Adjust image** by changing store layout and inventory, eliminate dollar deals, and implement the first monthly feature. Also introduce the loyalty rewards program

2 Months

## Step 2



**Focus on promotion** by advertising monthly features and store changes in online, print & social media campaigns. Also create a bonus reward of 500 points for all loyalty members

3-4 Months

## Step 3



**Roll out staffing and implement customer based experience** to add a new benefit to customers and cut costs after 6 months of operation

6 Months

## Step 4



**Monitor progress and consider expansion of additional stores** across the state and ultimately the country

2 Years +

# Risk & Mitigation



## **Alienate Current Customers**

Maintain the line of organic pet food to satisfy the 20% of existing customers that are pet owners, and introduce the loyalty card prior to changes being made



## **Fall in Household Income Limits Purchase of Luxury Goods**

Cut in costs will result in an additional \$13,860,000 in savings from staffing cuts of 2.1% alone. The contingency amount leftover can be used to lower prices if needed



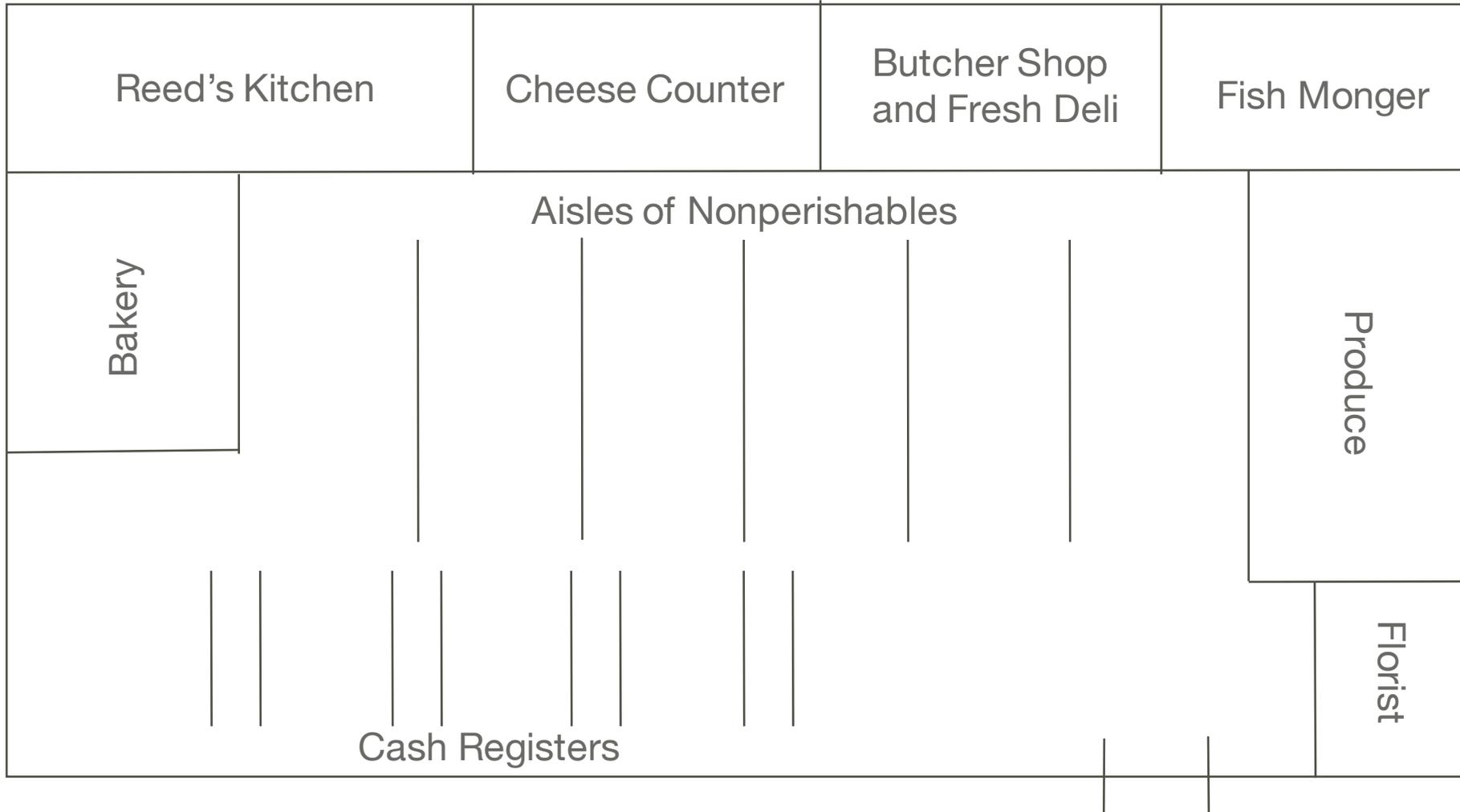
## **Cutting Product Line Resulting in Decreased Sales**

The customer based experience will ensure that consumers have a say in what is stocked on the shelf

# Appendix



# Appendix: **Store Layout**



# Appendix: Single-Step Income Statement

**Sales Revenue** \$660,000,000  
 Total revenue 660,000,000

**Gross Margin** 149,820,000

**Expenses**

**Payroll, taxes, benefits** (79,860,000)  
 Property rental (7,920,000)  
 Utilities (7,260,000)  
 Advertising (9,240,000)  
 Supplies (7,920,000)  
 Depreciation (5,280,000)  
 Maintenance (4,620,000)  
 All other (13,860,000)  
 Total Expenses 950,000

Net Income **\$13,860,000**

**Sales Revenue** \$660,000,000  
 Total revenue 660,000,000

**Gross Margin** 149,820,000

**Expenses**

**Payroll, taxes, benefits** (66,000,000)  
 Property rental (7,920,000)  
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 Supplies (7,920,000)  
 Depreciation (5,280,000)  
 Maintenance (4,620,000)  
 All other (13,860,000)  
 Total Expenses 950,000

Net Income **\$27,720,000 \***

Decrease  
by 2.1%

\* Conservative estimate as it does not take into consideration a decrease in advertising cost, or the cost associated with storing and selling excess inventory for lower margins



# Appendix: **Temporary Store Closing Costs**

Amount spent on preopening and store closing in 2014: **\$297,000,000**

Net income in 2014: \$579,000,000

Net income in 2013: \$551,000,000

Net change in operating income: **\$28,000,000**

Source: <http://assets.wholefoodsmarket.com/www/company-info/investor-relations/annual-reports/2014-WFM-10K.pdf>