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SPECIAL DELIVERY

BY JERRY SOVERINSKY

INDEPENDENT RETAILERS TURN TO DIRECT-STORE DELIVERY (DSD) FOR OPERATIONAL EFFICIENCIES.

Running out to the warehouse club to refill a run of milk is not an option for Marcelle Lavoie, owner of Wreck Cove General Store in Wreck Cove, Nova Scotia, a tiny hamlet on the east coast of Cape Breton Island. The nearest sizable town is Sydney, 90 minutes away, so the c-store veteran must manage her inventory carefully, ensuring an uninterrupted flow of goods, especially for high-velocity items.

As any visitor to her store will attest, no matter whether during the tourist-heavy summer months or sleepy winter, Lavoie accomplishes the task masterfully, with store shelves brimming with products — inviting arrays of food, beverage, and general merchandise — that have earned her store a reputation among locals and visitors as a shopping destination.

Her secret? Lavoie relies to a large extent on direct-store-delivery (DSD), a distribution model that's becoming an increasingly popular and viable option for independent retailers, who are turning to the practice to improve their bottom lines.

Why DSD matters

For independent retailers, the search for efficiencies is an endless pursuit. Wearing a multitude of hats — clerk, stock person, accountant, buyer, customer service rep, HR department, and janitor, among a million more — any opportunity to reduce time and labor expenditures without compromising operations is a welcome one.

Enter direct-store-delivery, a distribution model that produces a number of savings, especially for small retailers.

"For retailers, DSD unleashes an unparalleled opportunity to drive growth, power innovation, and improve cash flow ... the most effective supply chain design to deliver what customers want at the shelf where it counts most," concluded the Grocery Manufacturers Association in a detailed 2008 report, "Powering Growth Through Direct Store Delivery."

Whereas the traditional Canadian convenience store distribution model involves working with distributors and wholesalers, the DSD model eliminates the middleman and relies instead on fulfillment directly from producers and manufacturers. The DSD model captures weekly purchasing data and can use algorithms to ensure the appropriate mix of products and adequate stock levels are distributed to the cstores on a frequent basis. Wholesalers, on the other hand, rely on more traditional order acquisition approaches where the retailer phones in or electronically places their orders, usually

without the aid of a sales rep in the store.

"DSD works for me because the items which come this route are either my highest sale items which need to be restocked weekly or bi-weekly, or they are specialty items ..." Lavoie said. "The big sale items — such as dairy — come on a schedule year-round and it couldn't happen otherwise. The specialty companies such as local jam producers would be too pricey if they went through a distributor."

In addition to improving fill rates, DSD can help improve a retailer's profits, reducing costs while improving margins. Whereas the traditional distribution model left product at a retailer's door, DSD personnel assume an integral in-store role, executing promotions, ordering product, and merchandising.

"Our merchandisers go into stores and they [perform a comprehensive assessment]," said Keith Johnson, vice president of sales for The Amazing Video Network (AVN), a company that supplies DVDs, video games, music, and general merchandise to nearly 4,000 convenience stores throughout Canada. "They look at the planogram and they determine what needs replacing."

Most of AVN's customers get called on directly (the most remote receive product via post), a crucial component for maximizing retailer satisfaction.

"The traditional models, retailers wait for reps to get to their stores, it can take six weeks," Johnson said. "But with our

products, there are time sensitivities ... plus, our product line expands and contracts based on the time of year and location... we explain those things to the retailers ... we try to keep them organized."

It's a personalized approach that helps keep stores current with product while building solid relationships.

"Dealing directly with ... producers is a lot of fun because there is a rapport which grows from giving feedback," Lavoie said. "[M]y pleasure comes from people contact; I take fun where I can get it."

Making cents for retailers

Because DSD cuts out the middleman, there can be a significant cost savings for retailers, both direct and indirect.

"If a product is delivered directly, retailers see much greater margin than in many other categories as many sources of overhead are cut out of the equation: delivery costs and stocking costs, for example," said Mike Luce, vice president of business development for The Smart Cube, a global professional services firm specializing in procurement and supply chain research.

Indirectly, DSD makes sense because it ensures a robust inventory level for products. Under the traditional middleman system, should product run out in between visits, the retailer is deprived of potential sales.

Finally and perhaps most important for small retailers, DSD provides a third hand



with mundane tasks – stocking shelves, merchandising, reordering – allowing operators more time to focus on their customers.

“... [T]he added bandwidth from DSD representatives has a ripple effect by allowing the store staff to focus on other departments,” Luce said.

Supplier-retailer relationships

As suppliers begin to appreciate the appeal of DSD to retailers, more are turning to the practice to ensure healthy sales.

“Imperial Tobacco was the first tobacco company to go to a DSS [direct-to-store sales – slightly different acronym but same idea as DSD] in Canada. It did so in an effort to increase service level to its retailers and their customers, especially important as the country’s tobacco environment underwent change,” said Steve Pinard, division head of trade marketing and distribution for Imperial Tobacco Company.

“The decision to commit to such a major investment was made to better meet the needs of our smoking adult consumers in the fast-paced, ever-changing tobacco environment in Canada,” Pinard said. “Lack of product visibility at the point of sale presented new challenges for the retailers and their customers. Our aim, then and now, is to provide the retailer with the important information and business tools that help them continue to offer fast and quality service and keep preferred Imperial Tobacco brands in stock.”

The move was not without substantial cost for Imperial, which had to hire a “huge” sales force to cover their DSS outlets, according to Pinard. But the investment has since paid off, as the model has translated to a number of bottom-line benefits for its customers.

“DSS has provided us not only with the ability to increase our speed to market with next day delivery, but most importantly, more frequent interactions with the retailer,” Pinard said, adding the sustained presence also allows the company to respond quickly to changing consumer demands and preferences as well as provide valuable one-on-one training and tools.



But perhaps most important from a quality standpoint, DSD/DSS ensures continually fresh product reaches consumers.

“DSS ... helps minimize the residual shelf life of products by facilitating frequent stock rotation and better retailer inventory management as a whole,” Pinard said.

Finally, because DSD/DSS employs advanced technology in the field, the practice helps retailers and suppliers realize improved ordering accuracy, which Pinard says reaches as high as 98.5 per cent.

Self-service delivery

But alas, DSD is not for every retailer (or supplier). Geographic considerations make it inaccessible for some, but “we’re talking about a small percentage of the retailer universe,” Pinard said. And others might find inefficiencies in the system – 7-Eleven U.S.A. recently modified the practice at its stores (DSD has a much longer history with U.S. retailers), where DSD trucks became too numerous in store parking lots. Accordingly, the company has consolidated its fresh food delivery systems, reducing the overall number of deliveries (and vendors) its stores receive.

But for small retailers who are able to avail themselves of the practice, even selectively, DSD is proving to be a valuable asset.

“DSD works for me for products manufactured locally within the Maritimes,” Lavoie said, “I could not operate without their delivery services ... [Besides], distributors tend to be bigger businesses and we are communicating with very busy ordering staff which is a little less intimate.”

And for Lavoie, who has worked in the c-store industry for more than 35 years, when given the choice between impersonal or intimate, she’ll always go with the latter.

“All of us who work [in convenience] love working with people and we have a sincere pleasure in meeting people,” she said.

“Interaction is important, especially in a small community.”

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