COMMENTS REGARDING SLOTTING ALLOWANCES AND OTHER GROCERY MARKETING PRACTICES

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Ahold USA, Inc. and its operating company The Stop & Shop Supermarket Company ("Stop & Shop") hereby submit this brief perspective on slotting allowances.

Ahold USA oversees the U.S. operations for its parent company, Royal Ahold, a Dutch-based supermarket operator. Ahold's U.S. supermarket operations include Giant-Landover (Landover, Maryland), Giant-Carlisle (Carlisle, Pennsylvania), BI-LO (Greenville, South Carolina), Tops Markets (Buffalo, New York) and Stop & Shop. Stop & Shop is a New England-based supermarket chain. Headquartered in Quincy, Massachusetts, Stop & Shop has 204 supermarkets located in Massachusetts, Rhode Island, Connecticut and New York. Stop & Shop had annual sales volume last year of over $6.7 billion.

Much has been written and said generally about slotting allowances and their impact on the grocery supply chain. Stop & Shop, however, would like to offer its own particular views on slotting allowances and provide insight into how slotting allowances work at Stop & Shop supermarkets. Stop & Shop's approach to slotting allowances may be unique or it may be mainstream -- Stop & Shop is in no position to say one way or the other. What Stop & Shop's approach will show, however, is that slotting allowances for new products are an integral and effective part of its supermarket business model – a model that is coming under increasing competitive pressure from manufacturers and other efficient, large retailers.

A. Stocking Shelves at Stop & Shop

As a supermarket retailer, Stop & Shop is guided by a simple principle: offer the consumer the products and variety she wants in a comfortable, convenient environment at a fair price. From a theoretical standpoint, Stop & Shop, like any other supermarket retailer, would stock all available types of grocery items in its stores in order to fulfill this principle. However, no supermarket company has the resources to build a store that large, nor do consumers have the time or energy to shop in such a facility. Therefore, Stop & Shop and other supermarket retailers must make decisions on what to stock in their stores based on consumer demand and limited space.

Across the entire supermarket chain, Stop & Shop has approximately 70,000 to 75,000 different grocery SKUs in its computer system, located at its own warehouses and at its distributors. The average Super Stop & Shop supermarket stocks over 50,000 SKUs, and each Stop & Shop supermarket stocks different SKUs, depending upon local and regional consumer tastes and demands. For example, depending upon the store location, various ethnic products or departments (*i.e.*, Kosher, Irish, Asian, Italian, Portuguese, Caribbean) may be emphasized by a store. When Stop & Shop opened its South Bay store in the suburbs of Boston a few years ago, it carefully examined the neighborhood demographics, shopped the local markets to determine the local consumer tastes and subsequently added approximately 3,000 SKUs of various ethnic grocery products prevalent in the small neighborhood stores. These products were added to Stop & Shop's shelves without slotting allowances, and now carried by other Stop & Shop stores.

Stop & Shop carefully plans its shelf layout so that products are placed and displayed with consumer demands in mind. Every inch of shelf space – both horizontally and vertically – is measured carefully and utilized fully so that no shelf contains any "dead" air space – shelf space without a product facing the consumer. To keep the shelves well-stocked and fully loaded, Stop & Shop constantly monitors the shelves, making sure that products are displayed correctly. The amount of shelf space dedicated to any particular product depends upon consumer demand for that product.

Consumer demand, however, does not lead to every product being profitable for Stop & Shop. In fact, consumer demand for certain products requires that Stop & Shop carry products and categories that lose money for Stop & Shop – categories like seafood, bottled water, paper towels, diapers, baby food, pet food, liquid bleach, coffee and cereal. For example, to identify areas to reduce operating cost, Stop & Shop turned to activity-based costing, which examines the costs of each step necessary in getting a product from Stop & Shop's warehouse to the store shelves.

Because every inch of shelf space is utilized fully in a Stop & Shop supermarket, the introduction of a new product or a product line extension (new flavor, new size, new packaging) requires a category or department shelf to be re-examined. To place a new product or product line extension on the shelf requires the removal of a product that is currently on the shelf. Accordingly, for every new product that it puts on its shelves, Stop & Shop risks replacing an existing product with one that may not sell as well. Slotting allowances help offset those costs associated with the initial product placement and provide some assurance from the manufacturer that the product will sell.

B. Slotting Allowances at Stop & Shop

At Stop & Shop, slotting allowances are viewed as a form of promotional payment from the manufacturer, designed to offset some of Stop & Shop's costs of initial product placement on the store shelves. We also look at slotting allowances as a means to recoup the opportunity cost of replacing a proven product with an unproven product. Stop & Shop accepts slotting fees from manufacturers for new products – it does not accept "maintenance" fees to keep products on its shelves, nor does it accept "failure" fees to remove those products that do not perform well. Stop & Shop does not accept different slotting allowances for premium shelf placement within a category or department. Stop & Shop decides for itself, based on consumer demand, where products should be placed on the shelf. Most importantly, Stop & Shop has not and does not accept payments from manufacturers to keep a competitor's product off the shelves.

While slotting allowances are the main focus of this workshop, they are not Stop & Shop's main focus in deciding whether a product should be accepted for placement in its stores. Slotting allowances often are offered by the manufacturer rather than requested by Stop & Shop. Nonetheless, over the 30 years that slotting allowances have been prevalent in the grocery industry, Stop & Shop has developed suggested allowances on a product category basis. Stop & Shop has accepted new products without slotting allowances, and it has declined to accept products with substantial slotting allowances offered. In fact, at a recent Stop & Shop buying committee meeting, four out of five new items presented were turned down for being carried in the store even with offers of slotting fees. For Stop & Shop, slotting allowances will not save a bad product. Again, consumer demand determines what products Stop & Shop will put on its shelves.

C. Getting a New Product on Stop & Shop's Shelves

Despite the stories of serious impediments to placement on a supermarket's shelves, the process for getting a product in to Stop & Shop's stores is relatively easy.

Stop & Shop constantly is looking for a wide variety of products at the best possible price to distinguish itself from other supermarket retailers and mass merchandisers with limited assortments. Stop & Shop always is open to new products – particularly locally produced products and items produced by smaller manufacturers. Over 80 local farmers and produce growers supply Stop & Shop stores – some supplying only one or two stores. These products are stocked on Stop & Shop's shelves without slotting allowances.

The buying committee at Stop & Shop meets regularly with suppliers to discuss the addition of new products to Stop & Shop supermarkets. The committee is composed of Stop & Shop's buyers and the head of the department. Suppliers work with Stop & Shop's category managers to create a presentation that will demonstrate to the buyers the supplier's knowledge of the particular product category and its basis for believing that the product will do well in Stop & Shop's stores. Stop & Shop is fairly successful with this approach. None of the items turned down was rejected due to either a lack of slotting fees offered by the vendor or an inability of the vendor to pay a certain slotting fee. In fact, the slotting allowance promotion is usually the last item listed on Stop & Shop's new product introduction form.

If the product is accepted by the buying committee, slotting allowances or other promotions are discussed with the supplier. Slotting fees often are replaced by offers of free cases of the product – usually in an amount equivalent to the first order. Slotting fees often are reduced for new suppliers, particularly if the item bypasses Stop & Shop's warehouse and is delivered directly to the stores. Each of these alternatives to slotting fees helps reduce Stop & Shop's cost of storing and stocking the item on its shelves and often are used by Stop & Shop rather than a straight slotting fee.

Once Stop & Shop accepts a product, the supplier and Stop & Shop determine how many stores will stock the products initially. Given the smaller infrastructure of many manufacturers and Stop & Shop's focus on local and regional consumer preferences, Stop & Shop encourages suppliers to start their new products in a few stores. After a six-month period, Stop & Shop and the supplier evaluate the product sales to determine sales rates and growth potential. If sales rates are high or increasing following the introduction and the product shows potential, Stop & Shop likely will introduce the product to other Stop & Shop stores, depending upon regional consumer preferences and supplier production and distribution categories. Again, this expansion to stores beyond the initial test period stores is accomplished without slotting allowances.

Stop & Shop works closely with smaller and minority-owned businesses to bring products to market. Stop & Shop has encouraged and assisted small and minority-owned businesses in developing products and business and marketing plans for many years, and last year it implemented a formal program directed at supplier diversity. In July, Stop & Shop hosted a Supplier Diversity Summit meeting, inviting small and minority-owned businesses to discuss how best to bring their products to market. Currently, over 60 small and minority-owned vendors supply products to Stop & Shop supermarkets. None of these vendors paid slotting fees to get products on the shelves.

Examples of minority-owned businesses getting products on Stop & Shop's shelves without the payment of slotting fees abound. For example, Glory Foods, a manufacturer of a canned and frozen Southern-style foods line, is in all Stop & Shop stores. Luv 'N' Disposable, a disposable baby bib, initially started in 20 Stop & Shop stores. Now, Luv 'N' Disposable bibs are part of Stop & Shop's baby product planogram and are placed chainwide. As a follow-up, the manufacturer is now negotiating to go into Wal-Mart stores with its bibs.

Local products often are found on Stop & Shop store shelves without the payment of slotting fees. As mentioned above, Stop & Shop relies heavily on local farmers for produce items, none of which require the payment of slotting fees to Stop & Shop. Newman's Own salad dressing first got its start on Stop & Shop shelves in Connecticut without slotting fees. The manufacturer of Love 'N' Herb canola oil has a long history with Stop & Shop. Working out of her garage in Connecticut, the supplier approached Stop & Shop about carrying her canola oil product. Without slotting fees, Stop & Shop first carried the product in ten stores as a test to see how the product would perform; later, based on excellent performance, the product was expanded to the shelves of 24 stores. Today, the entire Stop & Shop chain carries Love 'N' Herb canola oil. Stop & Shop worked with the supplier and C&S, Stop & Shop's wholesaler, who now distributes the product for the supplier. Moreover, relying on her experience and sales volume achieved at Stop & Shop, the supplier has expanded into the Big Y supermarket chain, the Grand Union supermarket chain and the Edward's chain.

D. Stop & Shop Determination of Slotting Allowances

As mentioned above, Stop & Shop uses slotting fees to offset some of the costs of initially placing a new product on the shelves and replacing an existing product. While this may sound like a relatively simple and low cost process, there are quite a number of steps Stop & Shop must go through to put a product on the shelf.

After the vendor presents the item and a study of the marketing support for the product has been performed, Stop & Shop negotiates the terms of the sale with the vendor. Next, it collects product samples and measures the product for inclusion in the planogram system. Once the new item information has been verified, the product is entered into the pricing, planogram and warehouse systems. A program is planned for store implementation and a purchase order is written. The item is received at Stop & Shop's warehouse, where the warehouse creates a slot for the product, back stock location and stocks the product in the warehouse. Orders for the product are billed and the warehouse picks the product off its shelves and ships it to the stores. At store level, personnel are alerted to the new product and any necessary advertising is established. Shelf labels are created and installed on the store shelves, and the category or department shelves are reset completely to accommodate the new item. Finally, Stop & Shop verifies that the item has been set according to the planogram and that the item will scan through the check-out registers correctly. These actions also must be reversed to some extent in order to remove a product from the shelves. Thus, the seemingly simple task of replacing an existing product with a new product involves a number of complex steps that can be costly to Stop & Shop, particularly if the new item fails.

Given this background, the establishment of slotting allowances is a complex analysis of a number of variable factors. These factors include consumer demand and volume turnover for a particular product, the labor costs associated with stocking the item, the actual amount of shelf space taken up by the item and whether the product is delivered directly to the store. For example, liquid bleach is a low price item that has a large consumer demand, high labor costs to keep the shelves stocked, high volume turnover and takes up a large amount of space on the shelves. To offset these costs, slotting fees for bleach might be higher than the slotting fees for a slower moving, smaller space item, like condiments.

In addition, the risk of whether a product will be successful or not rests on Stop & Shop and not the product manufacturer. Supermarket retailers purchase the product from the supplier and take title to the product. If the product fails, the retailer must absorb with any unsold product. Manufacturers have reduced their test marketing of new products and have been shifting the burden and role of test marketing products to the supermarket retailers like Stop & Shop. Consequently, manufacturers are willing to offer slotting fees to compensate the retailer for the risk of product failure. If the product fails, the retailer is out the costs of: taking out the old product; putting in the new product; taking out the failed new product; putting in a replacement product; and other lost opportunity costs associated with the failed new product. Slotting fees help to alleviate this product risk, and signal to the retailer that the manufacturer believes in the strength of consumer demand for its product.

E. Slotting Fees Are an Integral Part of Stop & Shop's Business Model

Stop & Shop's supermarket business model is driven by low cost, quality and variety of products. Stop & Shop offers the largest variety of products in the marketplace at competitive prices in every market it participates. This model distinguishes Stop & Shop from other low-cost retailers who are challenging the supermarket format. This approach is more accommodating to small businesses and more conducive to flexible promotional arrangements than those of other retailers. Slotting allowances help Stop & Shop reduce its operating costs to make it more competitive with the large low-cost retailers.

A loss of slotting allowances likely will reduce new product introductions and could lead to higher prices. Because these allowances are used to offset some of the costs of new product introduction, without them, Stop & Shop and other supermarket retailers might be more cautious about accepting new products and begin reducing the variety offered to consumers. A reduction in variety and a loss of funds to offset the costs of new product introduction likely would require Stop & Shop to pass more costs through to the consumer as higher prices. As a form of product assurance, slotting allowances allow for continued new product introduction, while compensating retailers for handling these new items and bearing the ultimate risk of their appeal to consumers.

Stop & Shop's supermarket business model is built on competitive price, quality, variety, service and reliance on small manufacturers. Elimination of slotting allowances might turn that business model into one approximating the mass merchandisers' limited assortment model.

Conclusion

In conclusion, Stop & Shop takes a pragmatic, flexible approach to slotting allowances and new product introductions. Stop & Shop works with suppliers of new products to assess accurately consumer demand for the products and to determine the best way to address the attendant costs of stocking and effectively promoting the new product. Stop & Shop's business model relies on those fees to reduce costs to make it more competitive in today's marketplace. Any regulation affecting those fees will only have a detrimental effect on consumer choice, variety and price. A reduction or elimination of slotting allowances will raise store shelf prices and will make retailers far less willing to take a gamble on a new product.

I would like to thank the Federal Trade Commission for providing the opportunity to comment on this important issue.