

From produce to trash removal, reverse auctions are helping Price Chopper net double-digit percentage savings in more than 100 categories.

While many grocers are familiar with e-sourcing for products and technology, 128-store, family-owned Price Chopper has taken online auctions to a whole new level by expanding the concept to more than 100 categories — from tomatoes and mushrooms to floor care, roofing and even employee background checks — and is seeing double-digit percentage savings as a result.

“We typically see savings in double-digit percentages for most categories,” affirms Jason Kennedy, director of continuous improvement and administrative effectiveness for Schenectady, N.Y.-based Price Chopper, which uses Intesource’s eSourcing Web-based solution to purchase a variety of products, from items for sale in stores to services and computer equipment.

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Sourcing Savings

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CHOPPING COSTS

Price Chopper's electronic sourcing has saved the company millions of dollars.



we continue to source them year after year through Intesource, but as these categories become more standardized, we can pursue new opportunities in other areas, which may be smaller or more specific categories and services, but they offer a larger savings," Kennedy explains.

Examples of such services are the replacement of the roof on the company's distribution center and the purchasing of new signs. "These are smaller areas of spend, but the savings are larger, and every bit helps," he says.

After years of sourcing manually using requests for proposals (RFPs), and having each department in charge of its own sourcing, management realized the process was both time- and resource-intensive, and wanted to find a way to automate it. "We could never get to sourcing 100-plus categories

each year with the manual process," says Kennedy.

Of the more than 100 categories sourced at Price Chopper, the company uses the service for both direct and indirect purchases. Commodity items include canned vegetables and mushrooms, freezer pops, fresh produce such as tomatoes on the vine and bagged onions, frozen chicken wings, and shrimp and scallops.

"Basically every department within our organization has partnered with Intesource for e-sourcing," Kennedy notes. Even packaging, supplies and front-line associate uniforms have been sourced using reverse auctions, as well as services such as trash removal and floor care in the stores. "Human resources needed wage and labor posters, so we sourced the printing of those posters using the system," he says.

Intesource recommends that retailers take an enterprise-wide approach when sourcing products, and look beyond traditional items such as supplies or private label products. They should also seek to include services such as drug testing and background checks for the human resources department, advertising-related services, real estate and construction, bakery and deli items, and even IT services and equipment.

"By looking at it enterprise-wide, you can take a company that may have run 30 or 40 events, and now they will run 100-plus like Price Chopper," says Len Kaplan, VP of sales at Phoenix-based Intesource. "Part of our service is to make those suggestions, but also help guide customers away from what we know just won't work based on our experience."

When Price Chopper heard about e-sourcing and reverse online auctions, the company invited Intesource to its headquarters for a live demo. “We had them produce the demos in a conference room so everyone could see the results on a large screen,” Kennedy says, explaining that to help get management approval, Intesource ran actual auctions for items the company wanted to test. These included sourcing front end bags, IT equipment, mandarin oranges, canned mushrooms and canned pineapple.

“Canned demos are not very impactful,” says Kaplan, “but when you can go into the customer’s environment and run a sourcing event on live categories and with their suppliers, they can see the impact financially and otherwise. We guarantee results, or we do it for free.”

Additionally, Intesource has a variety of other tools to coincide with its eSourcing solution, including an eSuite Sourcing Manager, which allows customers to look at trends and historical information; Market Price Commodity, which provides the ability to track commodities such as flour, sugar, gas or diesel; Vendor Management, which maintains records of suppliers Intesource has worked with in the past and enables retailers to identify suppliers for various categories; and a Contract Center to store contracts in a central place, with the ability to send alerts if action is needed.

Structural Changes

The first step toward implementing the new sourcing system at Price Chopper was centralizing the sourcing processes for all departments. The grocer hired a reverse-auction analyst, Ken Gregory, who works as the liaison between each department at Price Chopper and Intesource.

“Our strategic sourcing department reports to me, and Ken is the day-to-day contact for merchandising and other departments charged with



On the Job: Jason Kennedy

When one learns Jason Kennedy’s title, a question immediately comes to mind: What the heck does a director of continuous improvement and administrative effectiveness do?

To put it simply, Kennedy oversees all continuous-improvement initiatives for Schenectady, N.Y.-based Price Chopper, and works with cross-functional teams to identify any waste within the organization so as to eliminate it. “I study the processes, eliminate waste and implement improvements,” he says.

Kennedy, who has a master’s degree in information services, was originally hired in 2004 as a business analyst. Prior to his current position, he held the roles of asset manager, and then project manager in supply chain development, for the company.

One of his first responsibilities as a business analyst was to develop and implement a sourcing process for private label and corporate brands, and to integrate sourcing events with strategic business plans in each category.

finding opportunities that exist for sourcing product,” Kennedy explains. “He helps to coordinate the events with Intesource and the stakeholders in each department at Price Chopper.”

When the company initially decided to join forces with Intesource, it set up a series of meetings with each of its departments to explain to them how the process would work. Also, each department was invited to a live demo so it could see a reverse auction in action and understand how the suppliers bid on different products.

“They could watch how suppliers would bid and drive the price down, and see how events got extended as the price continued to fall,” says Kennedy. “They could see the savings firsthand.”

Running an Auction

Intesource builds and runs the auctions or events for Price Chopper, and will often serve as a sounding board for new auction product categories. Gregory reaches out to the company’s assigned Intesource representative to check if any successful auctions have run for the category in question, and finds out what the success rates were with other partners.

“Another supermarket chain, in

the Midwest, may have seen significant savings on human resources wage and labor posters, so this might be an event that would work for us,” explains Kennedy. “Intesource would share that information with us, without revealing who the chain was participating in the auction.”

Additionally, Price Chopper can choose what suppliers directly from the Intesource database will receive invitations to participate in an auction, but can add new suppliers to the system as well.

“We meet with any new suppliers and let them know this is how we source our product, and then Intesource will bring them up to speed and train them if they are not already working with them,” says Kennedy, who has set up face-to-face meetings with current trade partners to let them know about the change in sourcing.

“It’s about the best overall value,” he notes.

However, with Intesource’s 12 years of experience — 90 percent of it in retail — many times, the suppliers a retailer is working with are already listed in the system, according to Kaplan. “Very often, retailers are shocked at what they could be saving



Price Chopper Promotes Private Label

In addition to its sourcing efforts, Price Chopper leverages the Web to boost efficiencies in other areas, including its loyalty programs. In an effort to promote its private label ice cream, the grocer teamed with SavingStar, offering eCoupons to its loyalty cardholders.

With more than 24,000 grocery and drug store partners nationwide, SavingStar works with manufacturers to provide eCoupons on a variety of products redeemable at participating retailers. And while Price Chopper takes part in these programs, the grocer wanted to try the offer on its own private label brand, says Mike Libenson, president of Waltham, Mass.-based SavingStar.

SavingStar e-mailed all of the Price Chopper cardholders in its network to alert them about the offer, and 50 percent activated the coupon. "We had 50 percent activate it, either on the SavingStar website or through the mobile app, and then 12 percent actually bought the product," Libenson notes.

When the offer is activated, it links to the consumer's loyalty card, but instead of getting the discount at the register, the coupon amount is deposited into the customer's SavingStar account. Once the amount reaches \$5, he or she can pick the method payout: either a deposit into his or her bank or Paypal account, an Amazon gift card, or a donation to charity.

"We charge the retailer on a per-redemption basis, so the only way they pay is if the consumer buys the product," explains Libenson. "Then we charge an administration fee."

In addition to e-mailing its network, SavingStar provides the retailer with the information to send its own e-mail to customers, or to promote the offer on its company Facebook page or website.

from people they are already buying from. Many times, the awarded supplier is the incumbent, and we can see a savings of 18 percent."

When setting the parameters of the auction, Price Chopper can either choose a blind reserve price, which is the price they're ultimately looking to pay and that must be met by a supplier, or the retailer can simply start the bidding at a chosen price and allow participating suppliers to compete for the business — which is usually the way they work, says Kennedy.

Price Chopper sets the quantity of items it would like to purchase, or, if it's a service, the number of stores, and suppliers will bid for the job. Each event begins at a set time and offers a specified amount of time for suppliers to bid, usually between 10 and 20 minutes, according to Kennedy. However, many events are ex-

tended beyond the initial time frame. For example, if a price change comes in during the last two minutes, the event will often be extended another two minutes to allow other suppliers to counter-offer.

"Sometimes, a supplier will come in with their best price, but will see a competitor move lower, and will counter with another bid to drive the price down," Kennedy says. "Suppliers can see how their price compares to the lowest, and can make the decision on whether or not they can improve upon it."

For Price Chopper, the most important step in the process is providing Intesource with a detailed specification of exactly what product or service it wants, along with any other relevant details. This ensures that everyone is bidding on a level playing field.

"This is especially important for something like floor care services," Kennedy explains. "We will let them know what cleaning supplies they need to use and exactly what we want them to do, such as how many times a week to clean and on what days. If we have a detailed specification and have done our homework upfront, then all the bidding should be apples to apples."

While the event is taking place, Gregory may field secondhand questions from participants, but Intesource is the primary source of contact and is available throughout the event. It also provides Price Chopper with statistics and reports following each event, along with an analysis of potential savings.

"We still expect all the products we source to hit our brand standard, so it's not just about getting the lowest price," Kennedy notes. It's about the relationship between quality and price."

Benefits and Results

Initially, the reason for implementing Intesource as Price Chopper's sourcing strategy was the cost savings, and that was the most immediate benefit the company realized. But long-term, the deployment has allowed the chain to standardize its sourcing process so it can be repeated throughout the year.

"The cost savings was a big win, but now we also have a schedule of events and are clearly aware of when our contracts begin and end," says Kennedy. "Once you work with Intesource, they provide a template for an event, and you can go and dust it off when the contract ends and do it again. We are much more strategic about how we source now."

Additionally, the template approach saves time when the company is looking to source a new product, he notes. "It's really about savings: savings in time, and significant money savings." PG