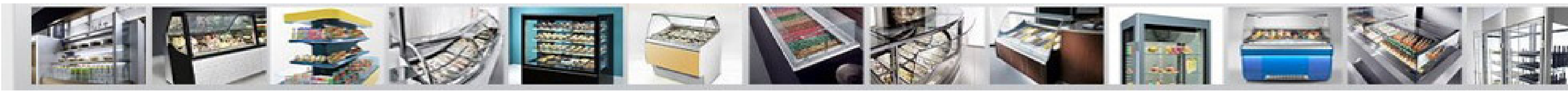
The Journal



Lolli and Pops success continues

Candy Authenticity coupled with Italian Gelato

Jan 2,2019; San Francisco CA. On a perfect spring day that seemed to be tailor-made for Instagram, dozens of children and adults in Atlanta stood outside, looking at their smartphones, waiting.

The weather had finally turned beautiful after a cold winter, so one might think They were pausing to take turns snapping selfies in the sunshine. But, in fact, they were just biding their time, waiting for the upscale Perimeter Mall to open. When the doors opened, many shoppers headed to Lolli & Pops, a fast-growing candy retailer based in San Francisco that is convinced delighting shoppers and leveraging technology are keys to physical retail's bright future.

"People walk in and leave the store very happy," said Sid Gupta, CEO of Lolli & Pops. "Candy elicits a very emotional response. And then when I looked around at how everyone else was selling candy, I asked myself, for such an emotional product, why is everyone selling candy in such an un-emotional way? I thought we could sell candy in a better way."

At a time when people in the industry talk about right-sizing their brick and mortar operation, Gupta talks about how quickly he can expand his store footprint.

Close attention to detail is paramount on all store design

Under his leadership, Lolli & Pops has experienced remarkable growth since its founding in 2012. The company Lolli & Pops Inc. now has 53 stores under its namesake banner, and 12 stores under the Candyopolis banner. It plans to open 30 more Lolli & Pops stores this year, which would make it the leading specialty candy store chain in the United States.

The success of Lolli & Pops would seem to fly in the face of many retail and CPG trends, from healthy snacks overtaking the confectionary category, to candy sales declining or moving online. But plain old-fashioned candy is, in fact, still a strong seller, and much of it is still an impulse purchase transacted in physical stores.

INDULGENCES STILL MATTER

When it comes to food, yes, it's true, many American consumers are "putting their health first." As a result, sales of everything from better-for-your snacks to organic eggs to kombucha are on the rise. While food retailers are scrambling to install juice bars and kombucha taps in response, the snack industry is awash in mergers, acquisitions and efforts that aim to turn candy makers into "innovation snacking powerhouses," as Hershey puts it.

But hard candy, chocolate and other sweet snack categories are still growing. "The candy category is a $30 billion retail category and it's never been down, since it started being tracked during the Great Depression," Gupta says. "Candy is not dying. The way we consume candy is very different from other foods. We consume it infrequently. Candy is a treat consumers eat in moderation and it's very well woven in our traditions."

Gupta is right. The confectionery category was up 2% over the past 52 weeks through January 2018, according to data insights firm IRI, and annual sales have grown 2%-4% over the past five years. In the grocery industry, confectionery continues to see above-average gains, up 3.3% over the latest 52 weeks, led by chocolate, up 4%. Mintel, in its latest chocolate confectionery study, projects 19% growth in candy sales through 2020.

It's clear that Americans still love a good indulgence. But not just any piece of candy. As consumers look to moderation, the perceived quality of the sweet or salty snack is ever more important. It's something that Gupta says led him to found Lolli & Pops.

PASSIONATE PURVEYOR

Gupta is an accidental retail disruptor, although he did always have an entrepreneurial itch, he says.

After growing up in the San Francisco area and going to college in Chicago, Gupta worked on Wall Street in investment banking and private equity. A few years later he left and started looking for things to do. He discovered a distressed chain of 11 candy stores, called Candyopolis, based in Oklahoma City. At the time, he admittedly knew nothing about running a retail company. But it was a small business, he thought to himself, and he was sure he could make something out of it.

So he brought his electrical engineer father out of retirement and they both moved to Oklahoma City together to learn about running a retail business. During this time Gupta also earned an MBA from Stanford, where he ran the business with his dad (who remained in Oklahoma) from his dorm room.

The time at Stanford allowed Gupta to really think about where retail was going. He took an exploratory trip to Europe and zeroed in on the experiential model of retail there. On that trip he learned the two key insights that would become the core value propositions for Lolli & Pops: delightful service and experiential retail.

HOW TO DELIGHT

One step into a Lolli & Pops store and it's impossible not to feel that inner delight. The retailer sets a compelling stage with a store design featuring pastels, ornate molding, vintage typography and delicious displays supporting the star of the show: a mouth-watering assortment of specialty chocolates, colorful candies, chilled novelty sodas, and other treats from around the world.

A lot of the assortment is the same in every store, so guests in Texas and Georgia know they can count on the same products, Gupta said. But at the same time, the assortment is constantly changing and guests are constantly being exposed to new products. "We have a huge innovation engine running both on sourcing products and on bringing new products to market," Gupta said.

A SWEET PARTNERSHIP

One way the company plans to do that is with technology. Lolli & Pops is working to leverage tech to improve and learn about customers' in-store experience. Not just any technology, but facial recognition.

The retailer has been working with Intel Corp. to develop a customer loyalty program that uses facial recognition to pull a profile on each customer as he or she enters the store. Intel has been installing entrance-facing cameras at Lolli & Pops stores and arming associates with tablets that are synced with a camera so when loyalty members enter the store they can be offered recommendations based on their previous purchases.

Technology is also helping the business ensure that its sales clerks are engaging with customers regularly.

"You can't have an imbalance of employees to customer. So we have focused on how to use AI and deep learning to predict guest traffic and improve scheduling. We are working with a startup in San Francisco to leverage that," Gupta said. For its e-commerce operations, Lolli and Pops focuses mainly on gifting. It has a limited assortment of gift-focused products online. But Lolli & Pops leverages its physical assets, the in-store information it collects, to determine what products should be sold as gifts online. It is this kind of retail model that makes the company so successful.

While lots of innovation swirls about the candy industry, from small brand growth to big brands attempting to position themselves as healthy snack purveyors, the rapid growth of Lolli & Pops proves there is still a place for old-fashioned, brick and mortar food retail. As long as the right ingredients are in place.

Tracking customer behavior in store.

Everyone knows that you can use analytics to improve your website, but these digital tools are now increasingly effective in offline stores, too. E-commerce websites were the influence behind candy retailer Lolli and Pops literally tracking the paths customers take once they enter its stores.

The insights have already paid off. For example, the company found that one of its locations wasn't seeing the same revenue coming from its high-sales sweets section. After checking in-store analytics, they found that there was a table in the way that deterred customers from exploring the area in which these items were located. These analytics also help them better train their staff to engage with customers, including offering them free samples.

Using this type of technology has allowed Lolli and Pops to almost
completely forego a marketing budget, relying almost solely on their customer service instead.

3. Leverage mobile technology in store.

A recent study done by SOTI found the following:

PURVEYORS OF SWEETNESS

LOLLI & POPS

SAN FRANCISCO

• 92% of shoppers prefer stores that offer mobile experiences.

• 73% want mPos for quicker checkout times.

• 65% want location-aware coupons.

• 61% would choose using a kiosk over speaking with a sales associate.

• 47% expect personalized service.

In this way, mobile and offline stores can work together to accommodate shoppers who are becoming more independent. They already know what they want when they enter a store. The retailer's opportunity is in providing a mobile experience that will make it as easy as possible for them to acquire it as quickly as possible.

According to a Forrester Report, $1.26 trillion worth of offline retail sales were influenced by digital media in some way. The same report estimates that number would be $1.4 trillion in three more years.

While not all of that "digital media" may have happened through mobile devices, it's clearly playing a sizable role. Furthermore, mobile technology isn't just about the shopper: 89% of retailers are expected to provide their employees with mobile technology by 2020 for everything from customer identification to customer engagement to POS and payments.

Given the demand, the potential returns and the adoption rates we've already seen, mobile-technology has widespread potential among offline retailers. Plenty of large retailers have gotten in on the act, but they're not the only ones. Montreal clothing company Frank + Oak uses its mobile app to improve customer engagement in a number of ways, including once they enter a store.

Its digital loyalty program offers customers 24-hour live-chat support, cash-back deals, free express shipping, in-store appointment booking and two-hour shipping on demand. The app also promises customers smarter, more personalized customer service the moment the user walks in the door. In fact, the app sends a signal to employees to tell them that one of their members just walked in and to offer them a complimentary cup of coffee.

The Future Of Retail

The physical stores that will be most competitive in the digital age will be those that are able to offer something online stores can't. In some cases, this will mean the opportunity to physically experience the product (e.g., Nordstrom Local allowing customers to try on clothing) or those that offer more convenience (e.g., two-hour shipping with Frank + Oak).

This is where the opportunity lies, but it will only be available to those retailers who use technology to make the most of it.

Emerson 360 Forum Covers Refrigerants, Regulations, Refrigeration Trends

Dec 22, 2018: NY, NY by Joanna R. Turpin

Regulations concerning refrigerants and commercial refrigeration equipment are changing quickly, and food retailers and HVACR contractors alike are looking for opportunities to learn more about how these changes will affect them. Emerson's recent E360 forum in Houston served to do just that, providing a range of industry experts who not only spoke about the changing regulations but offered insights on current trends and opportunities, as well as the varying types of system architecture in the commercial refrigeration market.

MORE CHALLENGES

In his opening address, Ed McKiernan, president of cold chain, electronics, and solutions at Emerson, discussed how consumer, commercial, and regulatory challenges are all contributing to the demand for a more tightly controlled cold chain.

PANEL DISCUSSION: Brad Thrasher (left) from Zero Zone and Derek Gosselin (right) from Hillphoenix answered questions aboutdigital shopping, changing store formats, and new system architectures.

“We have more than 30,000 traditional supermarkets in this country, and that’s before you add a growing number of dollar stores and other outlets for food. We need to figure out how to maintain that infrastructure.”
— Ed McKiernan president of cold chain, electronics, and solutions Emerson

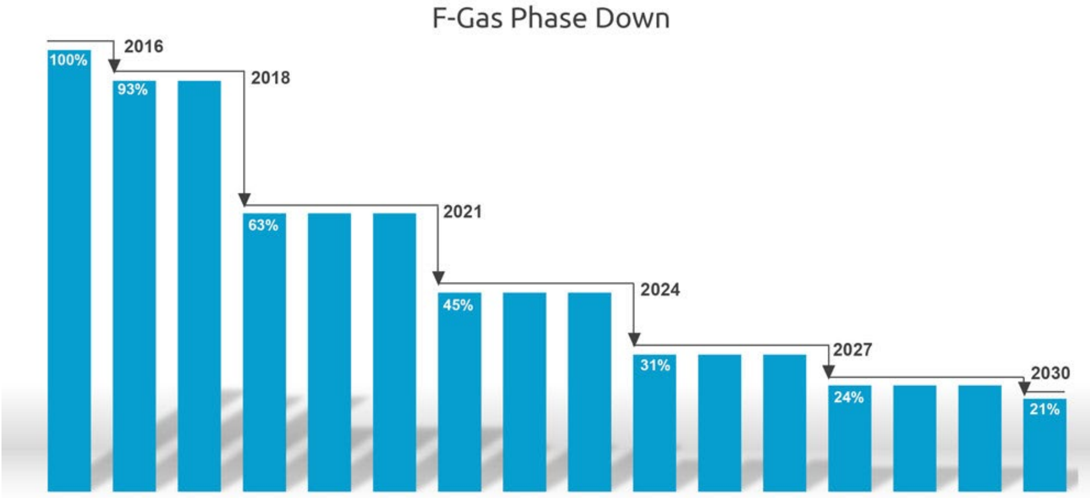
“The bar has never been higher, and we all have to work together to solve these challenges,” he said.

McKiernan pointed to four challenges that are driving this demand. The first is food safety, because the potential for foodborne illness threatens food manufacturers, retailers, and consumers. The second is food quality, as brand reputations are built on the promise of delivering consistently exceptional food and dining experiences. The third is the impact of maintaining the current infrastructure, which is becoming more challenging.

“We have more than 30,000 traditional supermarkets in this country, and that’s before you add a growing number of dollar stores and other outlets for food,” McKiernan said. “We need to figure out how to maintain that infrastructure. Meanwhile, because of the dynamics in the graying of America and the retirement of many of us in the industry, there’s an estimated shortfall of 115,000 technicians just to continue to support the industry at the current level. It’s a challenge. And the new systems are not like the old ones, so these people will need to learn new skills.”

The last challenge is regulation, which is happening at an unprecedented rate in commercial refrigeration, said McKiernan. For example, the Department of Energy (DOE) is mandating energy reductions that range from 5 to 50 percent, which could be difficult for some manufacturers to achieve.

“The Environmental Protection Agency’s [EPA’s] assumption is it’s their job to lay down the challenge, and it’s our job to figure out how to meet the challenge,” he said. “That’s tough. If we want to stay in this business, that’s what we’ve got to do. And certainly, there are changing regulations from the EPA, which continue to be a challenge.”



REGULATIONS

The evolving regulations from the EPA were addressed by Emerson experts Rajan Rajendran, vice president of systems innovation center and sustainability, and Jennifer Butsch, regulatory affairs manager – air conditioning. A particular concern of theirs involved the proposed rollback of Section 608 of the EPA's Refrigerant Management Regulations as it applies to HFCs.

Rajan Rajendran, vice president of systems Innovation center and sustainability, Emerson. - The ACHR News ONGOING STRUGGLE: Rajan Rajendran, vice president of systems innovation center and sustainability, Emerson, noted that the EPA is struggling to decide whether or not it even has the authority to approve new refrigerants.

"Because of the court case last year, which vacated Significant New Alternatives Policy (SNAP) Rule 20, EPA no longer feels that they have the authority to regulate HFCs," said Butsch. "What this rollback would do would be to say that appliances with 50 or more pounds of refrigerant would no longer be subject to the refrigerant management program. There are many negative effects that could come to the industry as a result of this."

The problem right now is that the EPA is struggling to decide whether or not it even has the authority to approve new refrigerants, according to Rajendran.

"The SNAP approval process is practically used all over the world," he said. "Even though it's a U.S. listing, most countries look to see if a refrigerant is approved there, and if it is, then they approve it. Now everybody is asking, 'Well, if the EPA is not going to do this, then who is?' We don't know yet. We don't know if EPA will continue to do listings or not, but we do know that California has been given authority to list refrigerants. So, now, imagine — 50 states, each doing their own listing. How would you like that? I know we wouldn't like it. It would be a nightmare."

In the absence of federal certainty, California, for example, is moving ahead to phase down HFCs, passing Senate Bill 1383, which requires the state to reduce HFC emissions by 40 percent by 2030. In crafting the bill, Butsch explained that the state looked at the existing federal landscape at the time and assumed the Kigali Amendment and SNAP Rules 20 and 21 would reduce emissions by a certain amount, but they still could not reach the 40 percent reduction target, so they needed to put together a plan to address that gap.

“In the meantime, the U.S. hasn’t ratified Kigali, then with the vacating of Rule 20 and the likely vacating of Rule 21, California lost that piece,” said Butsch. “So they put in a backstop. A lot of equipment had already transitioned away from high-GWP refrigerants, and they didn’t want manufacturers to go back to using them, so they adopted certain pieces of SNAP Rule 20 that were either already implemented or had effective dates that were very close on the horizon. This affected most of the retail food refrigeration equipment that was in the SNAP Rule 20. This was approved in March but is still not final; however, the Jan. 1, 2019 date is still in effect.”

As Rajendran emphasized, “SNAP Rule 20, which was vacated all over the country, is alive and well in California. If you’re selling equipment in California or you’re an end user in California, whatever was in SNAP Rule 20 from a commercial refrigeration point of view, it’s still good.”

REFRIGERATION TRENDS

A panel discussion addressed some of the trends that are changing the refrigeration landscape in food retail. Derek Gosselin, director of technical product support at Hillphoenix, and Brad Thrasher, South Central regional sales manager at Zero Zone answered questions about digital shopping, changing store formats, and new system architectures.

On digital shopping, both expect to see growth in this area but perhaps not as quickly as some experts are predicting. Thrasher noted that the prediction is that by 2025, 20 percent of commerce will be online, but he believes that will be closer to 9 or 10 percent.

“It’s definitely a rising trend,” he said. “Consumers are already taking advantage of curbside service and deliveries. Supermarkets have to adapt to however the market is flowing.”

This will inevitably lead to food retailers working hard to stay relevant in their marketplace, said Gosselin. For example, if Amazon is driving sales online, perhaps that will have an impact on the center store, as stores will have to differentiate themselves from not only online retailers, but from competition within their market place. This could result in the center store changing to become more of a destination center, such as a restaurant or a place to buy meals to go.

As for refrigeration system architecture, Thrasher sees movement toward self-contained or hybrid systems due to their flexibility.

“Curbside service is a recent phenomenon where now, stores have to adapt space in their store,” he said. “As far as refrigeration is concerned, they need something flexible that can be expanded for curbside service.”

Thrasher added that no one knows what is going to happen with refrigerants in the future, but end users are concerned about investing too much into one particular refrigerant, in case it becomes obsolete. That’s why he believes that distributed systems will become more popular, as smaller units can be placed on the roof to serve specific areas of the store. This minimizes the amount of refrigeration needed and is also expandable in the future.

Knowing that refrigerant regulations will change, Gosselin noted that the question becomes, how do end users get in front of that with their system architecture?

“Do you use micro-distributed systems or regular distributed systems? Do you do natural refrigerants? There are a lot of changes,” he said. “For end users, the challenge is not only what do they have to do to maintain their current fleet of stores, but what do they have to do with their future stores so that they don’t add to the problem. And how do they do that under a refrigerant management program?”

UPGRADES

Andre Patenaude, director of food retail marketing and growth strategy, cold chain at Emerson, continued the conversation about supermarket architecture trends in an afternoon workshop, noting that the spectrum of options will continue to expand. He discussed the many different CO_2 choices that are available, as well as how propane and ammonia are working their way into supermarket applications.

Rajan Rajendran, vice president of systems innovation center and sustainability, Emerson. - The ACHR News

NEW CHOICES: Andre Patenaude, director of food retail marketing and growth strategy, cold chain at Emerson, discussed the many different CO_2 choices that are available, as well as how propane and ammonia are working their way into supermarket applications.

For those end users looking to keep their existing refrigeration equipment but who would like to make it more energy efficient, Patenaude discussed various upgrade options, such as the use of variable frequency drives, electronic expansion valves, and continuous commissioning programs. But those capital upgrades need to be weighed against the cost of a new system, which may not only be more efficient but also contains the latest technology, such as IoT components and complete modulation.

“There are lots of things to think about when upgrading,” Patenaude said. “But most importantly, you need to know the difference between two simple words — effective versus efficient. A lot of us think that just because there are no alarms and everything is at temperature, the system is working great. But a store might be running 15 or 20 percent more energy, so it’s not efficient, but it’s effective. How do you take both of those and combine them together? You want the system to be effective for food quality and food safety, but you also need it to be efficient in order to remain profitable. Tying everything together through an enterprise service network that can take advantage of utility programs can help turn a seemingly inflexible energy asset into a flexible one.”

As with all the speakers at the E360 Forum, Patenaude gave attendees plenty of food for thought. And attendees offered ample feedback regarding the concerns they have about the changing landscape of commercial refrigeration. By addressing the issues collaboratively, Emerson hopes these types of gatherings will help create a more comprehensive view of the cold chain that addresses energy efficiency, environmental protection, equipment reliability and safety, and economic considerations.

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