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**9B18D011**

COLBERTS INC. (A)

Ishan Sharma and Saad Khan wrote this case under the supervision of David Wood solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Jessica Myers, a senior director of supply chain management, had just been invited to lunch with the chief operating officer (COO) of Colberts Inc. (Colberts) to discuss a possible promotion to vice-president of Technology Operations at the company. Since beginning at Colberts’ head office in Madison, Wisconsin three years earlier, Myers had made tremendous strides as one of the senior directors of supply chain management. She had been one of the few senior directors selected to lead an initiative to integrate a new supply chain management system. Although a costly investment, the new information technology infrastructure had helped increase operational efficiency at the store level. Not everyone had been on board at the outset, but when the benefits of the new system could be seen, Myers began to receive congratulations from everyone at Colberts. Things could not be better.

the INDUSTRY

The supermarket and grocery store industry was one of the most fiercely competitive. In 2016, the top three food retailers in the United States—Kroger, Publix, and Albertsons—accounted for only 31.3 per cent of all sales. The remaining 68.7 per cent of sales were dispersed across an estimated 41,070 food retailers. Between 2011 and 2016, the industry had grown on average only 1.0 per cent per year, and it was expected to grow by only 0.8 per cent in the next five years. Food retailers remained committed to offering deep discounts and promotions to draw foot traffic despite an already high cost of goods sold, which averaged 76.7 per cent in 2016. One of the highest operations costs, after the cost of goods, was logistics. Driving up logistics and supply chain costs were frozen foods, and fresh meats, fruits, vegetables, and dairy products. These perishable goods totalled 35.6 per cent of all sales in 2016. To combat pricing pressure and high supply chain costs, grocers were investing heavily in technology and automation including self-checkout, pay by touch, and auto replenishment technology. These investments in technology were increasing the demand for capital in an industry where the average profit margin was only 1.9 per cent.[[1]](#footnote-1)

COLBERTS INC.

Colberts was established in Madison, Wisconsin, in the United States as a one-stop shop for all household needs. The retailer’s growing reputation for providing customers with the best products at the lowest prices possible led to rapid growth for the company. Colberts was one of the first grocery retailers to develop several private-label brands that represented superior value and not simply the lowest price. In the early years, the company was able to build on its popularity and expand throughout the Midwestern United States.

By early 2017, Colberts had 983 stores and continued to exceed the industry in same-store sales growth, with an average growth of 2.5 per cent in the past three years. In addition to growth in revenue, Colberts also managed to earn better gross margins and a higher net income than others in the industry (see Exhibits 1 and 2).

OPERATIONS AND SUPPLY CHAIN MANAGEMENT

An expanding line of private label products and growing revenues had put a strain on the company’s ability to manage its supply chain. Colberts’ growth had introduced new complexities for the supply chain management team, making it more difficult to track orders and inventory. In 2015, Colberts decided to implement a new supply chain management system to not only keep up with changing demands but also stay at the forefront of new technology. The new system included SAP for the company’s enterprise resource planning (ERP), and J. D. Edwards for its inventory production, forecasting, and replenishment (IPFR). The combination of the ERP and IPFR systems gave the supply chain team the ability to manage inventory levels for each store across the organization based on analysis of sales trends and placing orders automatically with suppliers. The IPFR system utilized information on suppliers, warehouse locations, store locations, inventory, product data, and historic sales for each product in every store. Current orders as well as the previous week’s orders were retained for future reference. The supply chain management system was integrated within the new ERP system to ensure its smooth implementation. Installation of the system allowed Colberts to improve efficiency within its supplier network by re-designing the replenishment schedule. The system automatically tracked store inventory and created orders for suppliers to fill as frequently as needed. When an order was automatically generated, it was sent directly to the supplier, who shipped the product either to the distribution centre or directly to the store. Perishable items required full replenishment at least weekly and in some cases daily. Since these items constituted nearly half of the sales generated at Colberts, a separate application within the supply chain management system had been created to perform perishable product replenishment.

As the project lead for the perishable product replenishment system, Myers was particularly proud of her team’s success. By the end of 2016, the supply chain team was able to demonstrate a material improvement in food wastage and service fill rates, as well as lower operating costs. These improvements did not go unnoticed, nor did the implementation of the new system. Employees, management, and suppliers alike were complimentary of the way the team had managed the project. Myers had been the recipient of many compliments, and she was now widely seen as the logical choice for the new vice-president of Technology Operations. As Myers started her day, she could not help but be excited for her lunch the next day with the COO.

Exhibit 1: colberts inc. Financial Statement

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **2016 Annual Report—Financial Highlights** | | | | | |
| As at the years ended December 31, 2016 and January 2, 2016 | | | | | |
| (in $US millions except where indicated otherwise) | | | | | |
|  |  |  |  |  |  |
|  |  |  | **2016** |  | **2015** |
|  |  |  |  |  |  |
| **Retail Results of Operations** | |  |  |  |  |
|  | Sales |  | 13,707 |  | 13,431 |
|  | Operating Income |  | 574 |  | 432 |
|  | Adjusted Gross Profit |  | 3,703 |  | 3,548 |
|  | Adjusted Gross profit % |  | 27.0% |  | 26.4% |
|  | Adjusted EBITDA |  | 1,097 |  | 1,012 |
|  | Adjusted EBITDA Margin |  | 8.0% |  | 7.5% |
|  | Depreciation and Amortization |  | 457 |  | 473 |
| **Retail Operating Statistics** | |  |  |  |  |
|  | Same-Store Sales Growth |  | 1.5% |  | 3.5% |
|  | Total Retail Square Footage (in Millions) |  | 28.5 |  | 28.3 |
|  | Number of Stores |  | 983 |  | 985 |
| **Adjusted Earnings** | |  |  |  |  |
|  | Adjusted Net Earnings Available to Common Shareholders |  | 500 |  | 429 |
|  | Retail Debt to Retail Adjusted EBITDA |  | 1.7 |  | 2.0 |
|  | Adjusted Return on Equity |  | 12.9% |  | 11.1% |
|  | Adjusted Return on Capital |  | 8.8% |  | 7.6% |
| **Consolidated Financial Position and Cash Flows** | |  |  |  |  |
|  | Cash and Cash Equivalents |  | 471 |  | 327 |
|  | Cash Flows From Operating Activities |  | 1,063 |  | 930 |
|  | Capital Investments |  | 370 |  | 375 |
|  | Free Cash Flow |  | 550 |  | 407 |
| **Consolidated Per Common Share ($)** | |  |  |  |  |
|  | Diluted Net Earnings |  | 1.77 |  | 1.06 |
|  | Adjusted Diluted Net Earnings |  | 3.03 |  | 2.56 |
| **Dividends** | |  |  |  |  |
|  | Dividends Declared per Common Share ($) |  | 0.77 |  | 0.74 |
| **Assets** | |  |  |  |  |
|  | Inventory |  | 1,320 |  | 1,305 |
|  | Inventory Write-off (Including in COGS) |  | 7 |  | 26 |
|  | Fixed Assets |  | 3,189 |  | 3,165 |
|  |  |  |  |  |  |

Note: EBITDA = earnings before interest, taxes, depreciation, and amortization; COGS = cost of goods sold

Source: Company files.

Exhibit 2: Industry Ratios

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Dun & Bradstreet, Inc. Key Business Ratios—Grocery Stores** | | | | | | | | |
|  |  |  |  |  |  |  |  |  |
|  |  | **2015** | | |  | **2016** | | |
|  |  |  |  |  |  |  |  |  |
| **Solvency** |  | Upper | Median | Lower |  | Upper | Median | Lower |
| Quick Ratio |  | 1.6 | 0.7 | 0.3 |  | 1.4 | 0.6 | 0.4 |
| Current Ratio |  | 3.2 | 1.7 | 1.1 |  | 3.4 | 1.9 | 1.2 |
| Current Liabilities/Net Worth (%) | | 22.8 | 41.7 | 98.5 |  | 20.5 | 37.3 | 87.9 |
| Current Liabilities/Inventory (%) | | 77.1 | 135 | 225.9 |  | 73.9 | 125.2 | 193.7 |
| Total Liabilities/Net Worth (%) |  | 31.6 | 71.7 | 197.1 |  | 29.7 | 67.3 | 161 |
| Fixed Assets/Net Worth (%) |  | 23.4 | 51.9 | 126.7 |  | 24.6 | 62.5 | 138.8 |
|  |  |  |  |  |  |  |  |  |
| **Efficiency** |  | Upper | Median | Lower |  | Upper | Median | Lower |
| Collection Period (days) |  | 1.5 | 3.7 | 8.8 |  | 1.1 | 2.9 | 7.9 |
| Sales/Inventory (times) |  | 33.6 | 22 | 13.2 |  | 29.4 | 18.8 | 13.7 |
| Assets/Sales (%) |  | 15.9 | 24.4 | 41.5 |  | 16.9 | 24.2 | 41 |
| Sales/Net Working Capital (times) | | 24 | 14.7 | 7.7 |  | 31.3 | 15.5 | 8.4 |
| Accounts Payable/Sales (%) |  | 2 | 2.9 | 4.3 |  | 2.2 | 3.2 | 4.3 |
|  |  |  |  |  |  |  |  |  |
| **Profitability** |  | Upper | Median | Lower |  | Upper | Median | Lower |
| Return on Sales (%) |  | 2.6 | 1.4 | 0.6 |  | 3.1 | 1.3 | 0.3 |
| Return on Assets (%) |  | 11.9 | 5.2 | 2.1 |  | 9.4 | 4.5 | 0.7 |
| Return on Net Worth (%) |  | 23.4 | 11.3 | 4.1 |  | 16.1 | 9.2 | 1 |
|  |  |  |  |  |  |  |  |  |

Source: Dun & Bradstreet SIC: 5411, accessed February 5, 2018, http://www.mergentkbr.com.proxy1.lib.uwo.ca/index.php/

reports/industry.

1. IBIS World, *IBIS World Industry Report 44511: Supermarkets & Grocery Stores in the US*, January 2017. [↑](#footnote-ref-1)