



**Are You Prepared to
Localize and Personalize
Assortments?**

 **BlueYonder**

Why read this ebook?

A sophisticated space and assortment customization capability is required for competitive success in today's retail environment.

Optimizing retail space and the item assortment in that space has always been a concern of retailers and manufacturers. The reasons are easy to understand:

- From the retailer's viewpoint, shelf space is an important asset.
- Assortment variety increases inventory cost.
- Assortment is also critical to demand generation and shopper satisfaction.
- Understanding shopper behavior is key to delivering customer-centric assortments
- Customer-centric assortments are essential to maximizing sales, because they demonstrate an understanding of consumers' behavior.

Today these space and assortment issues are more important than ever because the competitive pressures and pace of change are accelerating.

- As retail channels blur, assortment and space decisions are critical to the survival of the retailer.
- Retailers must tailor assortments at a localized level to compete effectively.
- This means manufacturers must offer specific recommendations on an SKU-by-SKU, store-by-store, retailer-by-retailer basis.
- The complexity of the task is overwhelming existing resources, so both retailers and manufacturers must rethink how to address this growing competitive imperative.



Actions to consider

If you are a retailer:

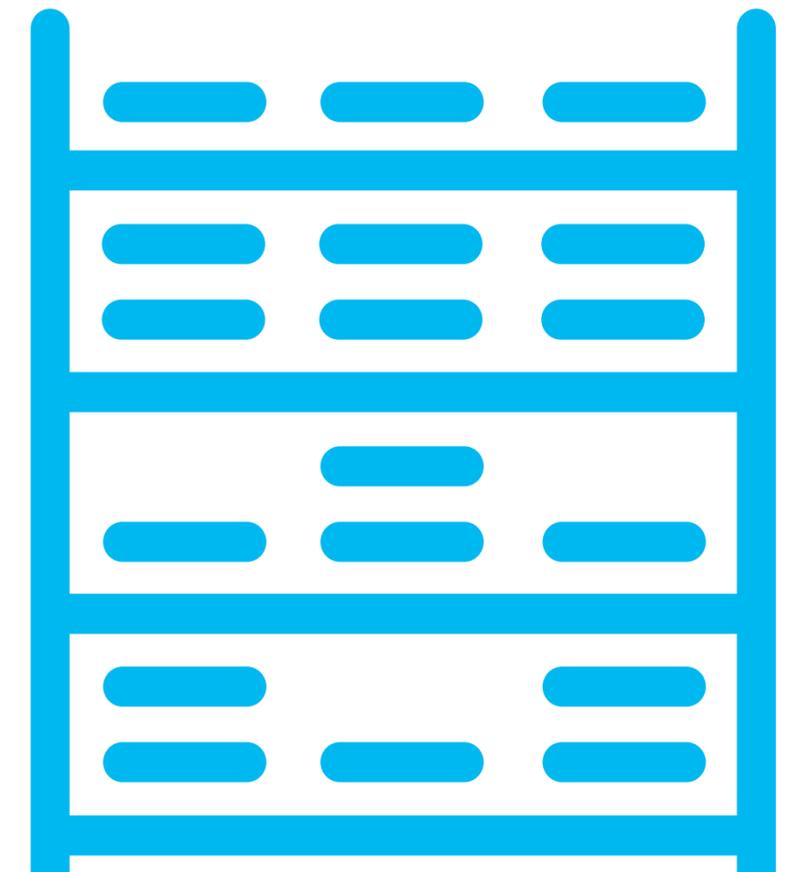
- Align internally around the role each category plays in your merchandising strategy and the implications for relative category space and assortment.
- Develop your store-clustering strategy to facilitate assortment optimization.
- Learn the theory of “transferable demand” to understand the risks and rewards of assortment decisions.
- Familiarize yourself with the new research and shelf-planning technologies emerging to optimize assortments and space.
- Where available, leverage loyalty card data and customer science to understand shopper segments, shopper preferences, unique products and which products appeal to your most loyal customers.

Optimizing assortment and space has always been a challenge but, as retail competition has intensified, so have the magnitude and complexity of this challenge. Everyone is struggling. The pressure is particularly intense on the manufacturer account teams at major retail customers, where team members are being asked to recommend and build assortments for literally thousands of locations.

Continuing to apply the current approach in organizational skills, data and analytics, process and technology will almost surely fail. A complete reassessment and resource re-allocation are needed today.

If you are a manufacturer:

- First, understand that competitive reality requires a reassessment of resource allocation. Fine-tuning probably is not the answer.
- Develop a gold-standard assortment strategy for your category reflecting assortment “best practices.”
- Adapt that gold standard to the major store formats and relevant retail demand cluster variations.
- Master the new research and space planning technologies.
- Internalize key strategic skills. Outsource commodity functions to third-party experts.



The need for a quantum change

The consumer packaged goods (CPG) competitive landscape is changing with startling rapidity. The digitally empowered shopper has adopted cross-channel shopping behavior. As a result, retailers find themselves competing for the shopper's dollar in every neighborhood. These retailers are looking to their manufacturer trading partners for help in localizing assortments. Manufacturers who ignore the retailers' requests for help in tailoring assortments to local needs will lose influence and lose SKUs from the shelf.

Retailers who fail to respond to local shopper needs will lose shopping trips and, in the long run, will lose shoppers themselves.

Given the pace and scope of change, manufacturers and retailers require a quantum leap in their assortment-localization capability to compete effectively. Everyone is being overwhelmed by the urgency and complexity of meeting the environment's new competitive requirements. Merely maintaining the current assortment-localization capability is a recipe for failure.

CPG leaders must develop a comprehensive new capability which will require more and better resources. Executives should focus on the following four areas:

- **Better trained people** with complementary sophisticated skills within a reconfigured organizational structure. This human resources component will probably include the outsourcing of some tasks to third-party providers with highly developed skills.
- **New data and analytics** that identify locally appropriate SKUs across multiple micro markets unique to multiple retailers.
- **A strategic process** that brings order out of the mind-numbing complexity of thousands of SKUs across scores of markets and retailers. This process demands internal alignment within manufacturers and retailers before they enter into a collaborative process with one another.
- **Remarkable new software capabilities** including planogram-generating tools capable of creating literally thousands of individualized store-specific versions with minimal stress on personnel. One major advance is the availability of cloud computing, which eliminates the need for expensive and time-consuming internal upgrades of native applications.



Understanding intelligent localization

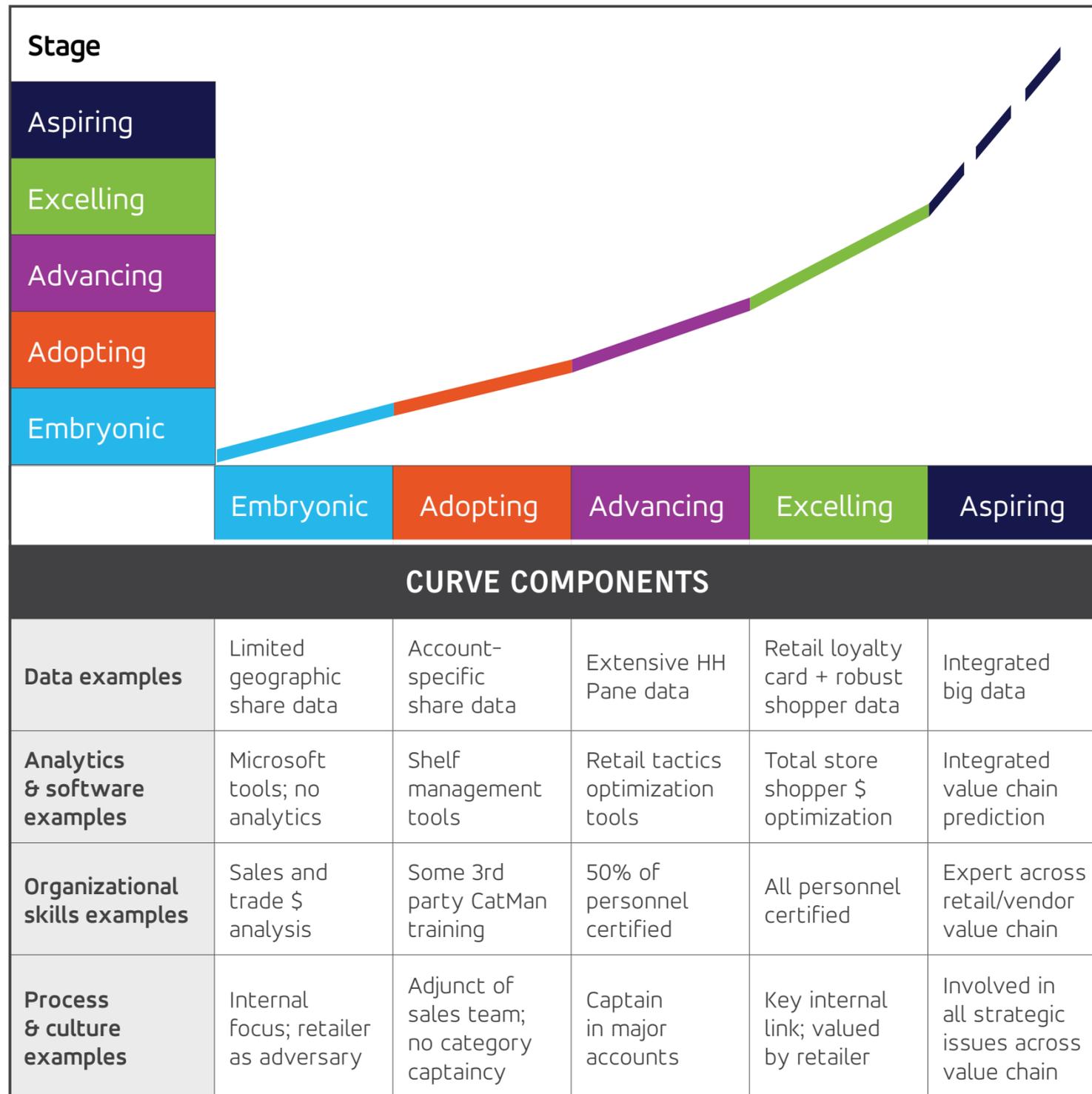
The basics of space and assortment optimization, led by the work of the Efficient Consumer Response committee in the early 1990s, identified the critical concept of "transferable demand" which still drives assortment optimization after 20 years. Among the lessons learned over the past 20 years of efficient item assortment analysis are:

- Categories vary in their need for assortment localization.
- The ROI of localization varies from category to category.
- Intelligent localization can increase category sales by as much as 5%.
- Leading-edge manufacturers and brokers are producing localized assortments and planograms in remarkable numbers with startling speed.
- Assortment localization imposes new demands on the supply chain, which is especially vulnerable to break down when planogram integrity is the responsibility of harried aisle clerks.

- Best practices for assortment localization are emerging in every aspect of the process. These practices are identified in this ebook, for example:
 - New models in organizational capabilities, including outsourcing
 - New analytical approaches to developing store clusters and appropriate SKU incorporating redefined external geographies
 - New tools and tool configurations that support easy assortment customization
 - A rigorous process for both internal alignment and collaboration between trading partners

There is not a specific cookie-cutter approach to assortment optimization for a manufacturer or retailer. Every situation is different. Every category, every manufacturer and every retailer is unique. The variations inherent in every manufacturer/ category situation and retailer/category situation from a strategic and tactical perspective make a specific point solution unrealistic.

The category management maturity curve



Manufacturers and retailers can develop a specific roadmap by assessing where they are on the “category management maturity curve.” By reviewing the characteristics of each stage and each component of the curve as detailed, industry leaders can assess where they need to focus their category-management and assortment-optimization efforts.

Only one thing seems universally true: every manufacturer and retailer needs to enhance its space- and assortment-optimization capabilities in light of the new pressure for assortment localization. To meet this new competitive imperative, CPG leaders must commit the time to understand their unique situation and then commit the resources required to win.

Where to begin

To succeed at almost any business endeavor such as an assortment optimization, manufacturers and retailers need four things:

- People with the appropriate technical skills
- The right combination of data
- The right analytical and solution-specific tools
- A process built around trained people, available data and the proper tools

Let's start with the people skills issue.

Almost every participant in the space and assortment value chain will ultimately consider outsourcing some steps in the process. This applies equally to enormous multi-billion-dollar companies as well as small companies with revenues below \$25 million.

However, it is advisable for all companies to maintain an internal core of people, or just one employee, with the skills needed to generate the space- and assortment- optimization outputs that are critical to translate brand requirements into planograms. This means companies need at least one person who understands all the data, the process and most importantly the functionality of the space-planning tools. Even though this person may not be an expert in the manipulation of the various planogram packages such as those offered by Blue Yonder, 5th Dimension, Nielsen, IRI or Galleria, they will at a minimum be able to interact intelligently with a trained third-party expert.

Today some large companies employ scores of people with reasonably advanced planogram-creation skills. In the long term, this is probably not the best people solution.

Outsourcing to expert third parties seems more efficient in the long term, especially where literally thousands of individual store planograms need to be created and maintained. But even these large enterprises need to have a few internal experts who serve as a critical translator between a brand's strategic desires and a real-world assortment-optimization solution. These internal experts adapt the brand's strategies to the critical retail channel, format and demand based retail cluster variations in the marketplace. Leading companies are already beginning to realize the advantage of using technology to generate planograms rapidly while the individuals freed from planogram creation can move to higher-level analytical tasks of more strategic value.

In addition to planogram software manipulation skills, space and assortment optimization require market research data analysts with a deep understanding of various analytical approaches and the syndicated data typically provided by Nielsen or IRI. These expert analysts should be able to create custom data sets representing store clusters that are different from conventional, geographically based data normally supplied by data vendors. These market research based analytical skills differ from the skills required to manipulate the planogram software itself. The analyst tends to emerge from a market research and data analytics background, while the planogram software expert tends to emerge from a sales analyst or account team background.

Another skill set that is quite helpful in the customization process is an understanding of the household panel data supplied by the major data vendors.

The internal team responsible for space and assortment customization will benefit from a relationship with third-party suppliers expertise in geo-demographic analysis of retail locations. Retailers and manufacturers should also consider partnering with experts who can apply unique analytical approaches such as “turf analysis” which can sometimes be helpful in situations where more conventional approaches prove inadequate. This topic is covered in more detail later in this ebook.

If the manufacturer has access to retail loyalty card data, some experience in applying this data to assortment management can be very helpful. In most instances, however, manufacturers will need to reach out to the third-party supplier of loyalty card services or to the retailer’s own internal loyalty card specialist to gain the knowledge of loyalty card analytics needed to enhance store-level assortments.

To summarize the skills necessary, an internal expert in the manipulation of planogram software is highly desirable. Some of the other required skills can be borrowed from internal market research experts or expert research analysts not necessarily directly assigned to the category management function. Third-party experts can be extremely valuable members of the space and assortment planning team.

Now let’s turn to the data needs for space and assortment optimization.

The information needed to truly optimize space and assortments at the local level includes the following:

- The retailer’s point-of-sale data at the most granular level possible.
- The retailer’s current store-clustering groups, whether driven by shopper demand patterns, format type or other geo-demographic considerations. This data should be supplemented by location for each of the retailer’s current locations.
- Current shelving data for key retail clients. This would include the gondola specifications in height, depth, etc. plus current planograms for existing retail clusters.
- Syndicated share data capable of manipulation into various customized “external market” clusters, for example, specific geo-demographic areas not normally aggregated by the data houses.
- Household panel data organized to reveal brand and SKU strengths sufficient to inform assortment decisions at the margin.

- Retail loyalty card data. This data will enable a customer-centric process.
- Current package dimensions, shipping case capacities and appropriate graphic imagery for software manipulation and accurate visual presentation. This information is often available from various third-party providers who maintain an up-to-date catalog for thousands of brands and SKUs.

Please note that the data list above implies open sharing between the retailer and the manufacturer. If either party is unwilling to share this data, effective localized space and assortment optimization is impossible.

Now let's turn to the subject of space and assortment optimization tools.

All these tools are provided by third-party software companies who have made a major contribution to the remarkable increases in the efficiency and effectiveness of assortment and space planning over the past two decades. The pace of improvement has actually increased in the past five years as software and hardware functionality has dramatically improved.

Here is a representative list of tools:

- A sophisticated software server to access the various databases and provide the critical data to the key software functions.
- A primary data repository which in the Blue Yonder portfolio is called Category Knowledge Base, or CKB. Within this database, the various data are cleaned and then stored for further use. This data cleaning and storage activity is critical to an accurate planogram and an efficient overall process.

- Individual databases containing the various data referred to above, for example, retail store POS data, loyalty card data, syndicated share and item velocity data and package imagery data.
- The key planogram production software that manipulates all the relevant data to produce a customized planogram following a series of rules input by manufacturers and retailers (days of supply, delivery patterns, shelving details, etc.).
- A graphics package which depicts the output of the planogram software with detailed representations of the items, the number of facings, the relative positioning of various brands and segments, etc.

All these tools are needed, but the one tool which has contributed to the most remarkable improvements in store-level planogram development is an advanced planogram creating tool such as Blue Yonder's Planogram Generator. This tool was specifically mentioned by P&G as contributing to impressive improvements in efficiency by producing literally thousands of store-level planograms at the world's biggest retailer in a few days, a task which would have taken 10x longer only two years before.

One major advancement is the ability to access some tools in the cloud where outputs can be easily shared and software improvements accommodated much more cost effectively than in native applications requiring precious internal IT resources.

Cloud computing also facilitates the new shared resource organizational model where some internal strategic work can easily be shared with third parties who are converting these internally developed strategies into externally deployed planogram outputs.

An overview of the process for building optimized assortments for store clusters

This ebook has described a situation which seems overwhelmingly complex, characterized by hundreds of SKUs and scores of retailers, each with multiple demand clusters. Chaos threatens the unprepared. But a well-orchestrated process trumps chaos. Retailers and manufacturers need to have a well-defined and documented process in order to master localized assortment optimization. P&G's experience offers some useful insights into the importance of process definition and internal preparation.

Building on the experience of P&G, Dr. Pepper, PepsiCo and others, here is the process approach likely to produce the best results, assuming the use of an appropriate tool set.

Before addressing specific store locations, retailers and manufacturers should identify the primary space and assortment variations they will face most frequently across their retail universe. In other words, they should begin where they are likely to end. The two primary drivers of these frequently experienced variations will almost always be (1) a difference in shopper demand among category segments (different size need states) and (2) a significant difference in the category space, which is a function of the variation in the role of the category by major retail channels.

For example, in the soft beverage category, the space and assortment challenge divides along two major axes. The first is the of store format (a convenience store versus a conventional grocery store). The second is the shopper-demand variation among three segments: carbonated soft drinks, perceived healthier drinks like waters and juices, and various functional beverages such as energy drinks.

Competitors in this complex category know that there will be hundreds, perhaps thousands, of variations in space and assortment among individual store locations, but they will evolve along the vectors of store format and need state variation. Therefore they should start with these major variants, perhaps six major meta planogram variants, and move forward to the next step.

That step involves building the core assortment by category segment and format. As mentioned above, in most categories the leading items and demand patterns by SKU do not vary significantly across a diverse universe. Practitioners instantly know which brands are always going to be present in which segments. This is what is meant by the phrase "core assortment." Even in a category as complex as soft beverage, planners can readily identify the SKUs that will account for 80% to 90% of total category volume in the assortment in large-format grocery stores and in smaller formats such as convenience stores. It's at the margin where assortments change in almost every category and segment.



It is an overstatement to say that these core assortments will always appear in every store. This is not the case, but the core assortments will cover 95% of the retail situations that any given manufacturer is likely to encounter. As a simple example, regular Coke is carried almost universally, but not in Whole Foods or some other similar formats.

It is also an overstatement to say that identifying a few basic assortment alternatives will solve the planning problem. Quite the contrary, virtually all the stress across the entire value stream involves varying the 10% to 15% of items outside the core assortment. That is the pain point in customization.

Solving this problem involves analyzing shopper demand in a unique clusters of stores that the data suppliers do not ordinarily aggregate or report. For example, they might report demand for groups such as C-stores or grocery stores in the New England region. But this shopper demand classification might not make strategic sense for a specific retailer or manufacturer. So the first issue is identifying critical store clusters and classifications, whether these are defined by unique store footprints or the fact that certain stores are frequented by large numbers of health-conscious shoppers. The second issue is understanding how shopper demand varies in these unique clusters, so planograms for these stores can reflect demand. In other words, space and assortment planners need to understand the actual, localized market demand in the locations where they are competing.

What is at stake beyond near-term sales gains?

Space and assortment optimization is about something more important than a one-time sales increase. Optimization, or customization, is about you prefer assortment and space customization is about meeting shopper needs at a time of unprecedented competitive pressure for both retailers and manufacturers.

Today's shoppers have grown to expect exactly what they want, precisely when they want it

All this discussion about process and people, software and analytics boils down to meeting these new localized expectations. The retailers and manufacturers who measure up will succeed in gaining and retaining the loyalty of shoppers. Those who don't will fail and will be deserted by their shoppers. The retail environment in which everyone now competes is as complex as a Rubik's cube and as rapidly changing as a child's kaleidoscope. Every company must ensure that its business model aligns with the new competitive reality.

The greatest challenge is finding and retaining the skills needed in the space and assortment planning process. Unfortunately, they are in short supply.

Realistically, many companies will find themselves outsourcing some of the steps in this process. The higher-level steps, in which the company's strategies are connected with the space and assortment decisions, should be internalized. Beyond these critical steps, however, many major retailers and manufacturers are finding that it makes more sense to outsource work to trusted third-party providers who have progressed well up the learning curve. They have become expert at capturing and cleaning the data, then using sophisticated software to transform internally developed, high-level assortment models into cluster-by-cluster, store-by-store assortments.



Summary

A space- and assortment-optimization capability has become table stakes for everyone in the CPG ecosystem. Every category in every channel presents different challenges. These challenges can only be met by understanding the process, the skills, the data and the software now required to meet the new standards of competitive Success ultimately depends on the willingness of CPG leaders to commit the appropriate resources required to keep pace with the increasing demand for customization and localization.

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