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SPACE PLANNING TO OPTIMIZE ASSORTMENTS

Combining curated assortment data with space planning can better enhance store experience and maximize profits

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Abstract

Retailers and manufacturers should seek technology data systems to help them manage business strategies related with their assortment, supply, store space and customer´s needs. Every product in every category presents different challenges, and those challenges can only be met by understanding the complexity of available data and the requirements which are now crucial to meet customer´s expectations and new standards of competitive success. The more granular consolidated data retailers have on hands, the better insights and results can be addressed to achieve a perfect assortment planning and to have them personalized and well localized inside the stores.

Key words: assortment; space; planning

Introduction

Retailers are often harried to grow profits, increase revenues and reduce organization costs. But what they are constantly challenged is to match supply and demand, to achieve the perfect assortment accuracy and to deliver the right product in the right place at the right time. Today´s omnichannel digitally empowered customers have new demands and, especially in the brick and mortar environment, they want to get what they are looking for immediately. Issues like running out of merchandise, not having it at all, not having it located properly or even having stock excess, which leads the store to massive discounts, could damage the shopping experience and be crucial to define if a business retail is going to be successful or not. Retailers who ignore those new consumption needs and retail competitive global scenario can lose shoppers in the long run.

Assortment-planning decisions are often based on sales reports figures and intuition. Apparently, both point of sale data and demographic information are not very accurate to reveal shopper´s purchase preferences. And if retailers do not truly understand the customer´s demand, they can´t properly supply their stores and be prepared for it. The use of data for merchandising optimization remains a challenge. Retailers have a lot of information but they are lacking in insights mostly because they can´t process unstructured data from different aspects of operations and most of them don´t have granular data. It frequently leads their business to stock-outs or overstock situations.

There are a wide range of software programs available on the market and even developed by a few number of retailers addressed to category management´s complexities. Those programs typically base space allocation on inventory turnover and sales, but not so much on store size, type and geo-demographic clusters. Solution providers should be aware not only of assortment, supply and inventory but also focus on space variations and merchandising exhibition. They must acknowledge multiple combinations of data and implied assortment to allocate category space.

But there is a long way to recognize that space planning plays an important role in retail business. As assortment planning and retail merchandising strategies that target specific consumer segments increase priority, an effective space planning becomes crucial to deploy overall category roles and its objectives to achieve better choices of inventory levels and to locate the right mix of in the stores.

Assortment Planning and Category Management

A good merchandising assortment plan includes an analysis of target market, competition, retailer´s image, store location and environment, stock turnover, and profitability. It includes the selection of merchandise a retailer carries and both the breadth of product categories and the variety of each category. (Berman, 2013, p.391).

Also, it can be divided into two levels: a strategic assortment planning that addresses not only the resources to allocate for each category but also considers the space available for them, as well as an operational assortment planning that drills down to each stock keeping unit S.K.U to be carried in each category. Both levels consider whether and how much assortment has to be located at stores, as well as the options of having a single assortment for an entire chain or unique assortments for each store. In the book *The New Science of Retailing*, three steps are considered part of an assortment planning: modeling, estimation and optimization. In the modeling process, retailers can define and group attribute values to determine accurate estimation. Their approach points out of estimating demand by using sales of many existing products that have at least in attribute in common with the new product to estimate demand for it. In the optimization analysis, retailers seek to maximize revenue considering that the assortment offered has an enormous impact on it. (Marshall, 2010, p.30, 57, 58, 59,60).

To estimate the product demand by attribute (that can be defined as a brand, a package size, a color, a flavor, an ingredient, a quality, a position or even a price point), makes sense but can be complex and sometimes difficult to apply. The "Project Impact" that Walmart implemented in 2009, used the attribute of exclusivity to reduce aisle cluttering displays and remove approximately 15.000 stock keeping units S.K.U.s (about 10% of the S.K.U.s in their typical store). The first impact has a very positive response on shoppers regarding the new and less cluttered stores. But later, shoppers noticed the removal of a specific S.K.U.s and started shopping somewhere else to get them. Sales declined for nearly two years when finally, Walmart stopped their plan to expand The Project Impact across their entire store base. They simply did not understand the metric of "exclusivity" and its power in determining shopper response to assortment. Nevertheless, the product attribute approach can also point ways to customize assortments and new kinds of data have emerged to enhance optimization decisions. (Wade, 2014, p.11)

In 2013, a project for M.A.C. Cosmetics Latin America, in which I participated was developed to reduce the Line Up in the region. Some stores were unable to receive the global full line up because of space issues. A meticulous assortment analysis was made to localize its most important categories without removing them radically, to recognize local customer´s

needs, to consider product attributes and to contemplate all linear meters available in the store to display the best assortment for the region. The result was a new line up that kept 45% of the current line up and assured productivity in all categories as compared with the current lineup. Sometimes, simplify assumptions from a relatively set of parameters to forecast the demand for a vast number of stock keeping units S.K.U´s can produce a great result.

Space and assortment are inextricably linked. It is difficult to stock assortments without allocating significant space to a certain the category. Space allocation itself is a function of the category role within the retail business and varies significantly from one retailer to another. (Wade, 2014, p13). Product categories have different characteristics and have to be managed in different ways to achieve optimum profitability. Some categories can be traffic builders, generating high sales and high profit margins; others are retail brand reinforcers that create excitement and theater in store; or cash-flow contributors that generate consistent value propositions; or destination categories with deep and wide assortments, containing leading brands and considering the best retail offer by target consumer or they can even be service providers, competitive with other category providers with low profit margins. The most important thing when selecting the product mix is to be aware of the cyclical sales patterns that both individual products and categories tend to follow. The position of a product or category within its lifecycle can guide retailers when making decisions about the depth of their assortment, differentiation to gain competitive advantage and profit performance. (Varley, 2006, p.49,50,52,53).

Thus, retail space planners have to be aware of many category variations in sales and profits and especially profit per foot per category. Categories vary widely in their shelf price, gross margin and display cube. Space cannot be optimized purely by category but rather attempt to dependent variables such as store sales, product characteristics, lifecycle, targeted shoppers and local demands. (Wade, 2014, p.15,16). More and more, the appearance of products on fixture with merchandising presentation techniques integrated with space planning systems should be considered an important contribution in the early stages of range planning to determine not only the overall space planning, but also helping retailers to decide the position of products layout in a store within each category.

Clustering and Store Grading

Traditionally, store clustering was done merely on the basis of geography, store format and store size. More recently, as competition has intensified across all channels, retailers started to respond to differences in the consumer base, product attributes, seasonal considerations and space capacity. Stores can be separated into more accurate clusters by using new data sources and predictive analytic software.

The value of demand based clustering solutions, for both manufacturers and retailers varies significantly among categories. However, in specific categories, demand based clustering is essential to optimizing shopper satisfaction. These categories will engender dozens of assortment and space variations inside the store. Some categories and retail conditions such as large variations in store size may require customized clustering solutions. (Wade, 2014, p.18).

According to Sue Nichols, CPSA Founder and President of CMKG Category Management Knowledge Group, in her 2015 article *Drive Shopper Satisfaction: Retail Store Clusters in three Steps*, there are four types of cluster than can vary from very basic store grading all the way to highly advanced statistical clustering, passing through department/category store segmentation based on category and multi-variant store segmentation based on set of criteria.

Store grades can be useful to determine what kind of product should be sold in a cluster of stores and what amount of such product may be sent to a store. Planning at a store grade level with an advanced statistical cluster analysis can allow a retailer to be more effective by decreasing the duplicity in efforts and help retailers to make business decisions based on key performance indicators (KPIs).

Nichols points out an example in which a store cluster with volume opportunity goals will not have the same set of KPIs as a store cluster with a "hold and defend" strategy. Category management plays an important role to help a focused approach and to break down the stores in a retail chain by their potential. But, before retailers move to a more advanced clustering approach, they need to have data storage requirements, analytical know-how and the right clusters defined for their stores, so that clustering analysis and store segmentation can effectively help them improving store space planning through shopper-centric cluster assortments.

Space Planning and Allocation

In space allocation, retailers want to optimize the productivity of store space. (Berman, p.367). Visual perception and financial reality not always come in the same pace and the integration between space planning and assortment planning in merchandising processes can be a challenge. Retail space management has to optimize both short-term and long-term returns on the investment cost of retail space.

As mentioned, the store space has to provide a logical, convenient and inspiring interface between the product range and the customer. Space planning also has a significant role in communicating the retail brand. Measurements of space have to consider not only the sales floor plan, to measure retail space productivity, but also the total number of fixtures available. Sales volume and profitability have to be measured in relation to the total amount of space available (considering the sales floor plan area and the fixtures area). The next step is to divide the space into selling areas, based on the number of fixtures given to each category. At this point, product adjacencies are planned and the exact location of selling areas are determined, based on the relationship between one product category and another. The final step is to determine the space allocation of product lines on individual fixtures to each product line or stock keeping unit - S.K.U, according to the availability, characteristics and compatibility of products and visual merchandising techniques. After having determined the amount of space that each department or category should be given the areas have to be fitted around and into the actual space available. Elements like entrances, payment areas, toilets, service departments, lifts and escalators, fitting- rooms or storage are immovable. The shopping flow inside the store must translate all the strategic planning between space and product assortment. (Varley, 2006, p.144, 145, 147, 155).

The Swedish-based furniture chain Ikea has often been characterized as a global retailer that uses a standardized approach in all of its markets. A 2011 study examined the actual degree of standardization and adaptation of Ikea with regard to four elements of retailing: merchandise, location and store format, the selling and service environment, and market communication within three countries—Sweden, Great Britain, and China. The findings were that although Ikea generally utilizes a standardized approach, it has adapted its customer-facing elements, adjusting some store elements to fit local market tastes. Previously in 2007, they had enabled accurate product and fixture ordering as well as easy to read planograms for co-workers using software solutions.

The success of a space allocation strategy comes with numerous and often interrelated decisions. As already mentioned, nowadays, systems allow retailers to use several data to help them planning the best space allocation for group or type of store. The merge of product information (trends, costs, sales, size, delivery), fixture information (display requirements, size, quantity, visual merchandising techniques) and product management decisions (space elasticity, stock-holding objectives, category lifecycle stage, marketing and sales objectives, consumer insights) will determine profitability and retail business success.

Conclusion

Today, an array of software options can capture and clean data to transform high level assortment models into cluster by cluster store assortments. However, integrated systems still have to provide better assortment planning solutions designed to enable retailers to optimize strategic merchandising assortment mix within the store space. Products have different attributes that need different space allocation strategies. There is a huge opportunity to combine types of fixtures and visual merchandising techniques with curated assortment data to provide space allocation according to each individual retail business and enhance store experience.

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