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Meeting local demand in a global world

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As many retailers work to expand in their region and/or globalize their brand, the successful organizations place the ability to meet local demand as a high priority. In fact, according to Retail Systems Research, 56% of retailers feel that localized assortments are extremely important for their retailing success, while another 37% feel that it is fairly important. However, numerous retailers are operating with fractured business processes and do not have the capacity to create localized assortments. For example, many have separate assortment and space-planning processes, which raises the question, "How can retailers create effective assortments without considering the space available?" Further, a majority of these retailers are using averaged product performance data to create a one-size-fits-all merchandise plan for use across the chain.

Every retailer knows that the key to success is to have the right products available, in the right stores, in the right quantities, at the right time. However, this concept can not be executed by using generic merchandise plans across the chain. Every store in a chain has a unique set of customers with shopping behaviors that vary significantly based on geographic, demographic and psychographic factors. Retailers can only create localized assortments by taking into account customer buying behavior, product performance and available space in each store.

Case study: Leading grocer migrates from generic to localized merchandise plans
 One leading U.S. grocer wanted to differentiate its brand by tailoring assortments on a much more granular level to meet its shopper's needs. Further, the retailer had recently introduced several new banners, each targeting a unique customer demographic.

Previously, the retailer used a manual merchandising process. The category manager worked with their manufacturing partners using enterprise-wide performance data to develop a list of products for all stores. Then the supply chain team established days of supply metrics and case pack rules that would ensure efficient delivery to store. Finally, the information was passed to the merchandising team who would attempt to build a customer-friendly merchandising plan based on this information for the most common, full-variety planogram for the category. Ironically, even in this generic environment, the merchandising team had to create dozens of variations of each plan to account for different fixture sizes and in-store traffic flow. However, none of the plans reflected the actual sales of an individual store.

As the retailer moved from a single assortment across the entire enterprise to assortments based on a specific banner and customer segment, the number of assortments required to support the category grew dramatically. This significantly increased the number of merchandising plans required to support the new tailored assortment strategies. To produce the required plans, the retailer implemented a customer-centric merchandising solution to automate and optimize the assortment and space-planning processes. The solution ensured that the retailer was able to choose the best products for each planogram based on each store's unique sales demand and space available.

Making room for products that sell
 Ultimately, automation allowed this retailer to optimize the inventory in each store. Even in what is perceived to be a fairly static category, such as dog food, there was enough variation between clusters to provide benefits from planning at a more granular level. For example, the Iams Large Breed Dog Food was ranked ninth in the high affluent segment where the pet was most likely considered a member of the family but very low in the mature segment where it did not warrant being listed in the assortment.

Further, the retailer can now identify demand for products on a store-by-store basis to ensure the right amount of inventory is available on the shelf. In its previous environment, the units and facings for an item were based on average selling performance. Now the retailer can set inventory levels based on each store's specific sales data to eliminate overstock and out-of-stock issues. Previously, a specific dog food required 16 units and two facings to satisfy the average demand across the chain. However, by using the solution, the retailer realized that many stores only required eight units and one facing while other stores did not require any. By eliminating or reducing facings of slower moving items, the retailer was able to free up space for new or better-performing items in those stores.

Visible benefits across the operation
 Since automating and aligning the assortment and space-planning business processes, the retailer has experienced margin increases from 5% to 18% in specific categories, and scores on its satisfaction surveys have risen significantly. Further, by optimizing its inventory, there has been a significant increase in product availability, reduced inventory for slower moving items and less waste for items with short shelf life. The retailer has also increased planogram compliance and reduced in-store labor costs which are attributed to lower reset and in-store replenishment costs and overall improvements in category space utilization.

Getting started
 To begin creating localized assortments, a retailer needs to select a partner with a proven customer-centric merchandising solution. It is important to choose a partner with an experienced team and the ability to support the organization long term. It is equally important to select a cross-functional team including representatives from executive management, business and IT to make the transformation successful.

When beginning the process, it is also important for retailers to plan for change. This can be done by identifying categories that can benefit the most from localized planning. These tend to

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be categories such as beer or ready-to-eat meals, which vary greatly based on customer preferences, or those in which maintaining availability is a persistent challenge, such as paper products. Lastly, make sure to engage suppliers as strategic partners and not just tactical labor. By following these steps, retailers will be on their way to maximizing sales, margins and returns on inventory investments while providing customers with an enjoyable and satisfying shopping experience.

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