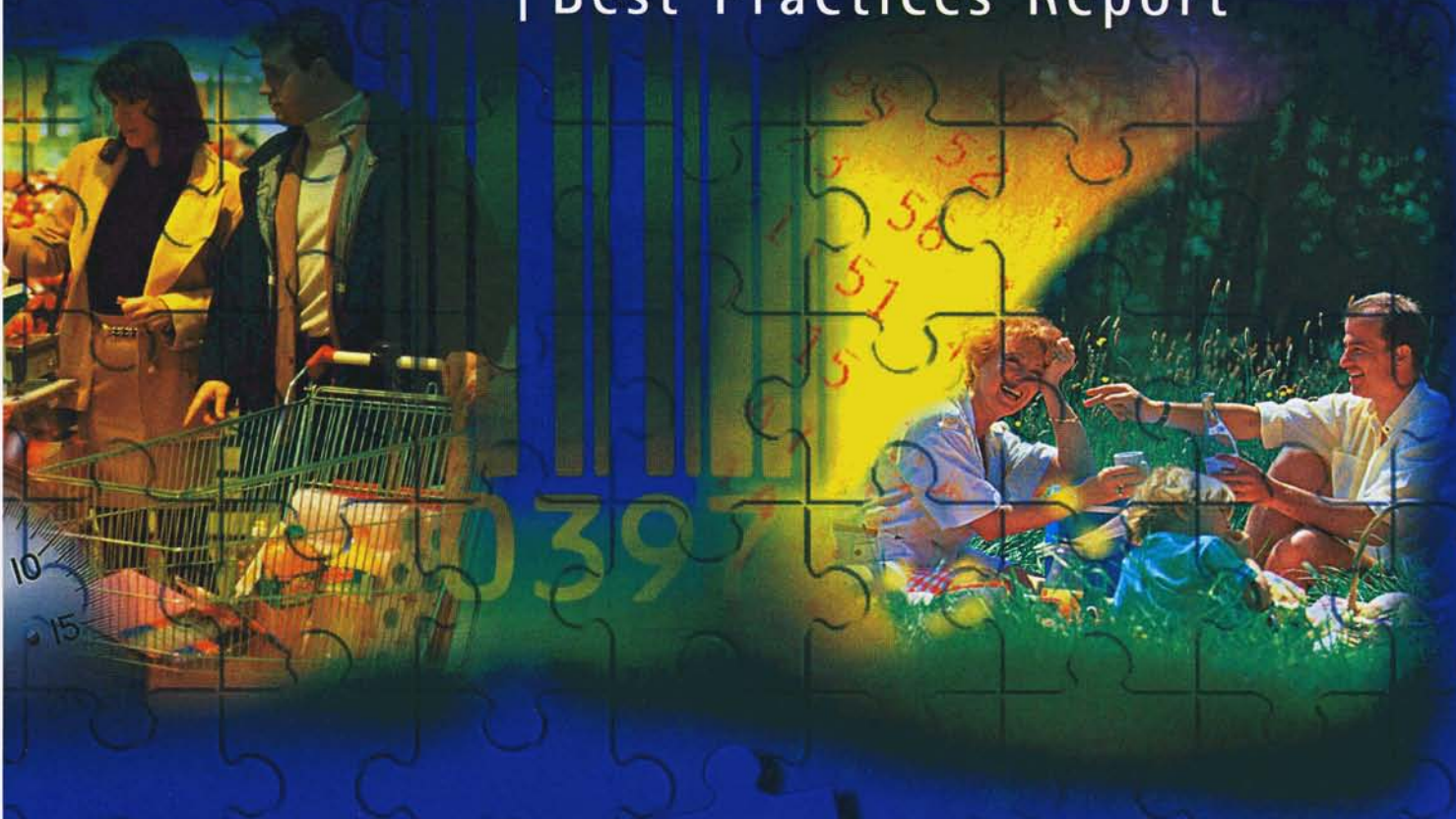
EFFICIENT ASSORTMENT

Best Practices Report



ECR Europe
Efficient Consumer Response

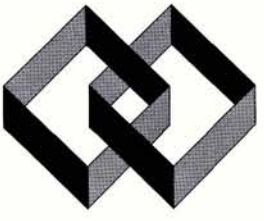
THE PARTNERING GROUP

ECR *Europe*
Efficient Consumer Response

EFFICIENT ASSORTMENT

BEST PRACTICES REPORT

Prepared by The Partnering Group



THE PARTNERING GROUP

TABLE OF CONTENTS

Facilitated by The Partnering Group, Inc

Recommended Price £ 30,-

ACKNOWLEDGMENTS

This report was made possible by the contributions of the members of ECR Europe. Their leadership and direction, their willingness to share information and the results of projects and processes undertaken in support of this study, have added greatly to the contents of this report. On behalf of the ECR Europe Board, we would like to thank all of those listed below who willingly gave their time and expertise as members of each group, reviewing and giving input to this report.

In addition, we extend special thanks and recognition to our consultants who prepared this report - The Partnering Group, Inc. TPG has been instrumental in the development of Category Management and ECR solutions for retailers and suppliers in Europe and the rest of the world. TPG has authored the European, U.S. and Brazilian ECR Category Management Best Practices Reports. Special appreciation is extended to the primary author of this report, Frank Grossi, President of The Partnering Group, Inc. He drew heavily upon the work he has led in Category Management and Efficient Assortment in the U.S. and Europe.

ECR Europe Demand Side Steering Group:

Graham Booth	*Tesco*
Harry Bruijniks	*Albert Heijn*
Laurence Deprez	*AIM*
Jean-Jacques Jarrosson	*Danone*
Ulf Kalmbach	*Rewe*
Jaap Kwist	*Unilever*
Jacques Le Roux	*CIES*
Alfonso E. Merry Delval	*Promodès Spain*
Franco Suardi	*Kraft Jacobs Suchard*
Enrico Toja	*Johnson & Johnson*

ECR Europe Efficient Assortment Advisory Board

Neil Barker	*Walkers Snack Foods*
Peter Bennemeer	*Kellogg*
Stephan Brune	*Benckiser*
Renaud Cogels	*Delhaize Le Lion*
Malcolm Corby	*Thomas Cork*
Jaliya de Soysa	*ICA*
Berthold Figgen	*Procter & Gamble*
Nick Garland	*United Distillers*
Heinz-Rainer Horn	*Henkel*
Hermann Neubauer	*Kraft Jacobs Suchard*
William Oliver	*Johnson & Johnson*
Pippa Rogers	*Tesco*
Willem Kesteloo	*Caprabo Store 2000*
Michael Kolodziej	*DM Drogeriemarkt*
Brigitta Rodens-Friedrich	*DM Drogeriemarkt*
Elizabeth Preddy	*Coca-Cola*
Sian Stephens	*Sainsbury's Supermarkets*
Rüdigen Strein	*Fegro/Selgros*

ECR Europe Efficient Assortment Consulting Resources

The Partnering Group, Inc. - Frank Grossi and Dr. Brian Harris.

EXECUTIVE SUMMARY

This report describes an approach that can assist retailers, wholesalers, and suppliers in developing a product assortment for a category that is uniquely efficient given their target customers, category strategies and financial objectives. To achieve this objective, the efficient assortment approach:

- Provides flexibility for broad, industrywide application, while recognising the diversity of categories and practitioners and country business environments in Europe.
- Recognises the valuable and unique contributions of each cooperating trading partner.
- Incorporates and works within current ECR Europe Best Practices methods.
- Reflects the assortment management needs of both suppliers and retailers.
- Considers the current and emerging people, data and systems capabilities within the industry.

Efficient Assortment Defined

A cooperative retailer-supplier process of determining the optimal product offering within a category that achieves target consumer satisfaction and enhanced business results.

The Efficient Assortment Model

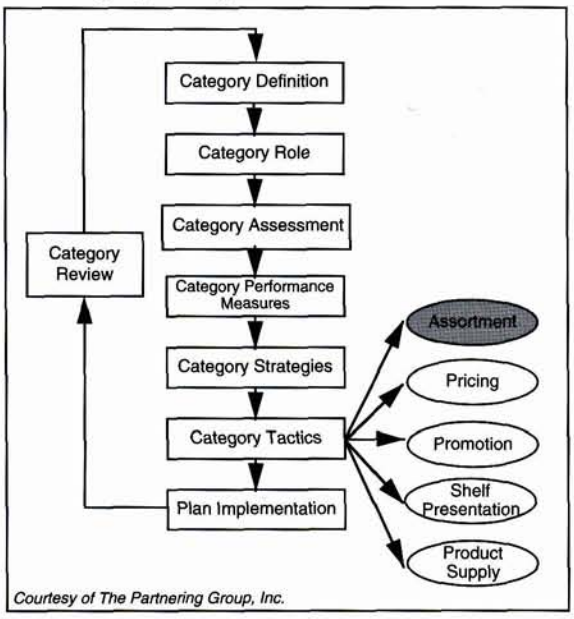
The efficient assortment model described in this report has four components:

- **Component #1: Category Management Framework** — assortment is a part of Category Management, one of the five tactics.
- **Component #2: Six-Step Process** — a simple yet comprehensive process.
- **Component #3: Data Integration** — consumer, market, financial and operational data.
- **Component #4: Cooperative Trading Partner Relationship** — a cooperative relationship between suppliers and retailers.

Component #1: Category Management Framework

Efficient assortment is best understood and practiced within the context of the Category Management process. As described in the ECR Europe Category Management Best Practices Report, that process identifies assortment as one of the five major "tactics" of Category Management; the other four being pricing, shelf presentation, promotion, and product supply. These five tactics are addressed late in the Category Management process. This means assortment, as well as the other tactics, are likely to be influenced by the decisions made in earlier steps of the process as shown below:

Category Management Business Process



In fact, every one of the earlier steps in the Category Management process has a potentially significant effect on assortment. In other words, no assortment can be considered truly efficient until it has passed through the Category Management process. For example, how can an assortment be considered "efficient" until it is measured against performance measurement objectives? How can an assortment be judged efficient unless the role the category is being asked to fulfill in the retailer's portfolio of categories is identified? (This report assumes the reader is familiar with the basic concepts and processes of Category Management. The primary reference for this information is the ECR Europe Category Management Best Practices Report.)

Component #2: The Six-Step Process

Within the broader context of Category Management, the efficient assortment process is composed of six steps:

Step 1. Market Coverage — This step determines a preliminary target "percentage of turnover" (market coverage) within the marketplace for each category segment.

Step 2. Deletion Validation — Stock keeping units (SKUs) falling below the turnover coverage target are passed through screens of market, retail and consumer measures to judge the propriety of deletion.*

Step 3. Retention Validation — SKUs falling above the turnover coverage target are passed through screens of market, retail and consumer measures to judge the propriety of retention.

Step 4. Addition Validation — SKUs not carried by the retailer but falling above the turnover coverage target are passed through screens of market, retailer and consumer measures to judge the propriety of addition.

Step 5. Assortment Finalisation — The results of the previous steps are combined to arrive at a recommended new assortment.

Step 6. Assortment Validation — The proposed assortment's effect is quantified and compared with that of the current assortment.

* The term "SKU" as used throughout this report refers to a consumer purchase unit of a product (SKU = Stock Keeping Unit). This is normally a product with an EAN code number.

Component #3: Data Integration

The six-step process uses consumer, financial, market and operational data that are typically available to practitioners within the industry.

- The consumer data include measures like consumer loyalty, exclusivity of use, consumer worth and substitutability, which are typically sourced from household panel data. In addition, the efficient assortment process applies geodemographic data for the development of store-by-store or cluster assortments.

- The financial and productivity data include measures such as turnover, profitability, return on assets, and turnover or profit per meter. These measures are typically sourced from internal retailer and/or wholesaler databases.

- Finally, the market data include measures such as retail availability, turnover per million (pounds, francs, etc.) of market turnover and market share. The market data are typically sourced from syndicated data suppliers. The integration of these sometimes disparate measures enables practitioners to make more informed assortment decisions.

Component #4: Supplier-Retailer Cooperation

In the past, assortment rationalisation has sometimes reflected the limited perspective of either the supplier or the retailer. This report recommends a cooperative approach through which supplier and retailer combine their skills, unique perspectives and experience to better understand and meet consumer needs.

Findings and Learnings

The experience of practitioners has provided the following findings:

- **Category Management context** — An efficient assortment cannot be developed in a vacuum. Rather it should be developed within a Category Management context that has:

  - A specific category definition and structure defined by consumer needs.

  - A category role describing the objective (or what some term as the "desired state") of the category in the supplier or retailer trading partner portfolios.

  - Consumer, market, retailer and supplier performance evaluated via an assessment.

  - Specific performance measurement targets.

  - Clear strategies, such as "traffic building," "profit generating," etc. that are developed to ensure the category achieves the role and performance measurement targets.

Each of these factors discussed in the ECR Europe Category Management Best Practices Report helps to create the appropriate framework in which an efficient assortment can be developed. Taking this framework into account helps ensure that the assortment is truly efficient.

- **Ease of use** — After some one-time background work and practical experience, the process can proceed at a surprisingly fast pace.

- **Universal applicability** — The discipline, principles and concepts embodied in the suggested model make it applicable to virtually any category. However, these tools are not ideally suited to extremely data-poor categories such as variable weight products where market and consumer data are less available. In those categories, the six-step process is applicable more in the context of providing a disciplined, step-by-step decision process implemented with significantly less data.

- **Data availability** — Not all the practitioners have all the data sets suggested here. The approach, however, yields maximum effectiveness from the data that is available. Experience has shown that practitioners rarely have all the data sets mentioned. The six-step process suggests several data sets so that practitioners may use what is available to drive the process. Most importantly, even with limited data, the use of the six-step process provides a disciplined methodology for making improved assortment decisions.

- **Cooperation** — The value of retailer/supplier cooperation in meeting consumer needs is never more evident than in this assortment approach.

- **Product development** — This process can reveal unmet or poorly served consumer needs and thereby lead to new product development or product improvement.

- **Cluster/store-by-store implementation** — The efficient assortment process can be applied on a companywide, cluster or store-by-store basis.

- **Storewide applicability** — The efficient assortment process has been applied to all categories within a traditional supermarket. However, the process works best in categories where data is more readily available and SKU mix is more stable (e.g., limited "in and out" SKU activity).

Output Findings

- **Assortment variation** — The described approach may produce both increases and decreases in the assortment of categories, depending upon the unique strategy and inputs of supplier and retailer trading partners and on the historical or current assortment.

- **Deletions and additions** — The approach virtually always leads to SKU additions as well as deletions. Experience to date indicates that deletions have been more numerous than additions, resulting in a net reduction in category SKUs. This is not, however, an inevitable result of the six-step process. It is clear that categories and conditions exist where an increase in SKUs would create the optimum assortment to meet consumer needs.

Benefits of Efficient Assortment

The primary benefit of efficient assortment is that consumer needs are better met by having the right products in the right stores at the highest efficiency.

For the total system, cost savings from more efficient assortments are a significant component of total estimated ECR savings.

For retailers, assortment expresses the strategic differentiation of the store perhaps more than any other aspect of retail management. Corporate strategies in other areas — such as retailer branding, pricing, and promotion— also will impact assortment decisions.

For retailers and suppliers alike, additional benefits include faster stock turns, lower out-of-stocks and overall better asset use and returns from a more efficient, less burdened replenishment system.

For suppliers, benefits also include a more efficient manufacturing and logistics infrastructure, plus a clearer understanding of consumer needs. This can lead to more successful new product initiatives. Importantly, a number of real-world examples detailed in the report highlight significant short- and long-term wins for the practitioners (retailers and suppliers) and the consumer.

Conclusion

Efficient assortment is one of the four principal initiatives within the overall ECR Europe effort, along with efficient product introduction, efficient promotion and efficient replenishment. The proper mix of SKUs that best meets target consumer needs affects virtually every aspect of both the supply and the demand side. By definition, consumer needs are better satisfied when the right products are available at the lowest possible cost. Moreover, when assortments are optimised within the specific parameters of the category role/strategies provided by a Category Management process, the entire business system can work faster, better and more efficiently.

CHAPTER 1: INTRODUCTION

An efficient assortment strategy can help retailers, wholesalers, and suppliers develop a product assortment for a category that is uniquely efficient and effective for their target consumers, category strategies and financial objectives. To achieve this objective, the efficient assortment approach:

- Provides flexibility for broad, industrywide application, while recognising the diversity of categories, countries, and practitioners within the European grocery products industry.
- Incorporates and works within current ECR Europe Best Practices methods.
- Reflects the assortment management needs of both suppliers and retailers.
- Considers the current and emerging people, data and systems capabilities within the industry.

This report provides a set of tools to assist retailers and suppliers in evaluating assortment issues, as they seek to implement their strategies and offer more value to consumers.

The Contribution of Efficient Assortment To the ECR Initiative and the Industry

Efficient assortment is one of the principal initiatives within the overall ECR Europe effort. It affects virtually every aspect of both the demand and supply sides of ECR. By definition, consumer needs are better met when the right product is in the right store at the lowest cost. Moreover, when assortments are optimised, the entire supply system works faster, better and more efficiently.

Specifically, efficient assortment:

- Ensures that consumers have the choices they want.
- Enhances the consumer's perception that the right products are carried and effectively presented.
- Provides a framework for measuring and managing consumer interest in new products, thousands of which are introduced annually at an extraordinary cost to the industry.
- Represents a significant component of the overall potential savings from ECR activities.
- Differentiates the needs of various formats and stores and strengthens store identity and strategic plans. Perhaps more than any other aspect of retail management, assortment expresses the strategic differentiation of the store.
- Is closely linked to efficient replenishment, improved financial returns and consumer satisfaction.
- Ties directly to category or product regionality as well as neighborhood level micromarketing, an increasingly important component of successful, consumer-driven retailing.
- Has significant long-term implications for supply-chain capital costs for suppliers and retailers. More efficient assortments leads to more efficient factories, distribution centers, logistics systems and higher ROIs.
- Is the first of the five tactics considered in the Category Management process and, therefore, has significant implications for the other four tactical decisions (pricing, shelf presentation, promotion and product supply).

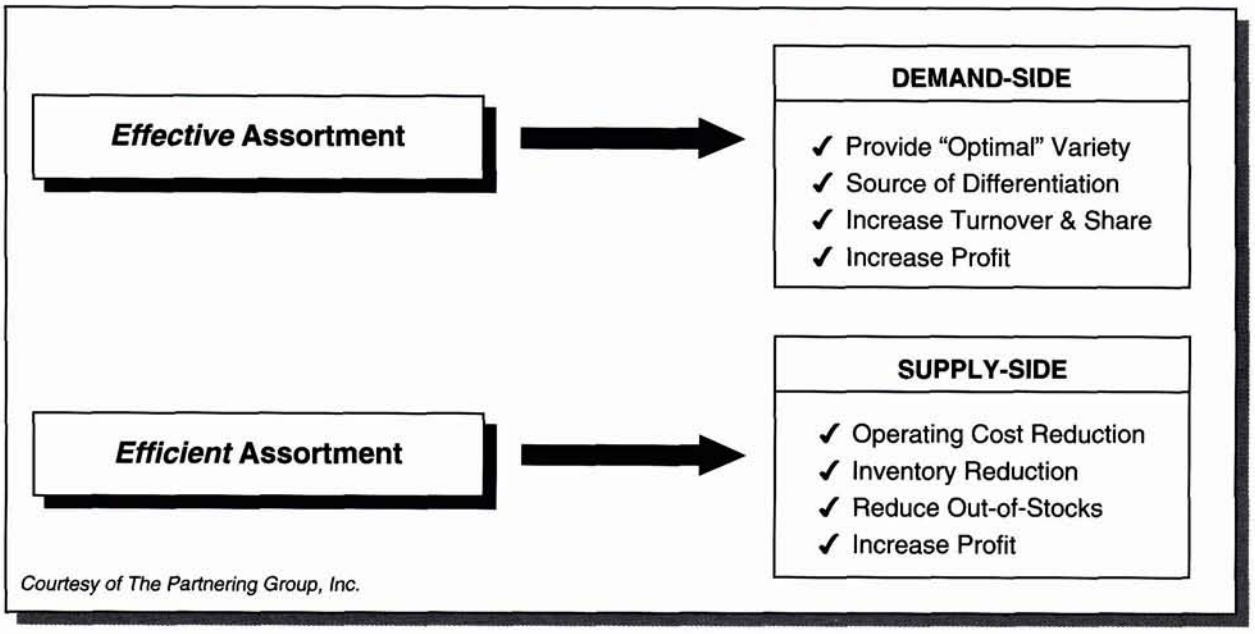
- Reflects category, segment and product seasonality to insure the right products are available at the right time.

- Encourages the development of new and improved products to meet evolving consumer needs by helping to recognise and promote those needs.

Solving the riddle of assortment has been to be one of the preeminent challenges facing participants in the food industry — both in strategic and competitive terms. Over the past decade, limited assortment retailers have steadily gained ground. At the same time, many members of the conventional food retailing industry have embraced broad assortment variety as a strategic necessity. Now, retailers find themselves on a strategic tightrope seeking to provide variety but not unnecessary duplication and even to expand variety where it creates a competitive advantage.

Suppliers are facing similar pressures. After years of increasing SKU counts via line extensions of every conceivable type, many now realise that SKU proliferation can increase costs throughout the supply system. This, in turn, can depress financial returns to shareholders and may actually reduce the value of the brand equities being offered to consumers. As a result, suppliers struggle to meet evolving consumer needs with more new SKUs, while determining which existing SKUs are of dubious consumer or shareholder value.

The opportunity for retailers and suppliers is to develop and implement an assortment that is both efficient and effective as depicted in the graphic below:



Nothing in this report should be construed to imply that reducing SKUs is prima facie beneficial at all times and in all places. This simply is not true. Meaningful additions in the right categories, skillfully aimed at appreciative target consumers, can be a key to increasing turnover and profit margins and creating consumer value and loyalty.

Efficient Assortment Defined

A cooperative retailer-supplier process of determining the optimal product offering within a category that achieves target consumer satisfaction and enhanced business results.

Two key propositions are implicit in this definition and have been borne out by tests of the approach outlined in this report.

First, no particular assortment of SKUs is right for any given category, at all times and for all retailers and suppliers. Rather, efficient assortment must take into account differences in:

- Consumer needs and behaviour.
- Retailer roles and strategies for the category.
- Supplier strategies and capabilities.
- Marketplace conditions.

Second, efficient assortment involves the deletion, addition and development of SKUs, each driven by the interplay of consumer need, retailer objective and supplier response.

The Efficient Assortment Model

The successful generation of an efficient assortment depends upon the four components shown below. The actual process of implementing efficient assortment is composed of the six steps described in detail later in this report.

- **Component #1: Category Management Framework** — Efficient assortment is a part of Category Management, one of the five tactics (assortment, pricing, shelf presentation, promotion, product supply).

- **Component #2: Six-Step Process** — a logical, step-by-step process that guides practitioners through an orderly series of steps designed to integrate the key decisions of Category Management and available data so as to maximise assortment decisions.

- **Component #3: Data Integration** — the use of consumer, market, financial and operational data to make effective and efficient assortment decisions.

- **Component #4: Cooperative Trading Partner Relationship** — a cooperative relationship between suppliers and retailers through which each brings its unique resources, experience and consumer knowledge to the process.

Benefits of Efficient Assortment

The efficient assortment approach will not "automatically" recommend one "efficient assortment" for every category. Rather it gives a retailer and a cooperating supplier a specific process and set of objectives so they can confidently develop an assortment that will be more efficient (and effective) than the current assortment. In other words, the efficient assortment approach ensures that all relevant factors are considered through the use of a broad range of objective data. Typically, another retailer and supplier working in the same category in the same marketing area may develop a different assortment, because that retailer and cooperating supplier would begin with a different set of decisions regarding category role, category performance measurement objectives, target consumer, etc. Importantly, one of three outcomes is likely:

- More efficient assortment: the new "efficient" assortment reduces the retailer's and supplier's category operating costs (e.g., storage, inventory handling, etc.) and delivers equal turnover and consumer satisfaction when compared to the prior assortment.

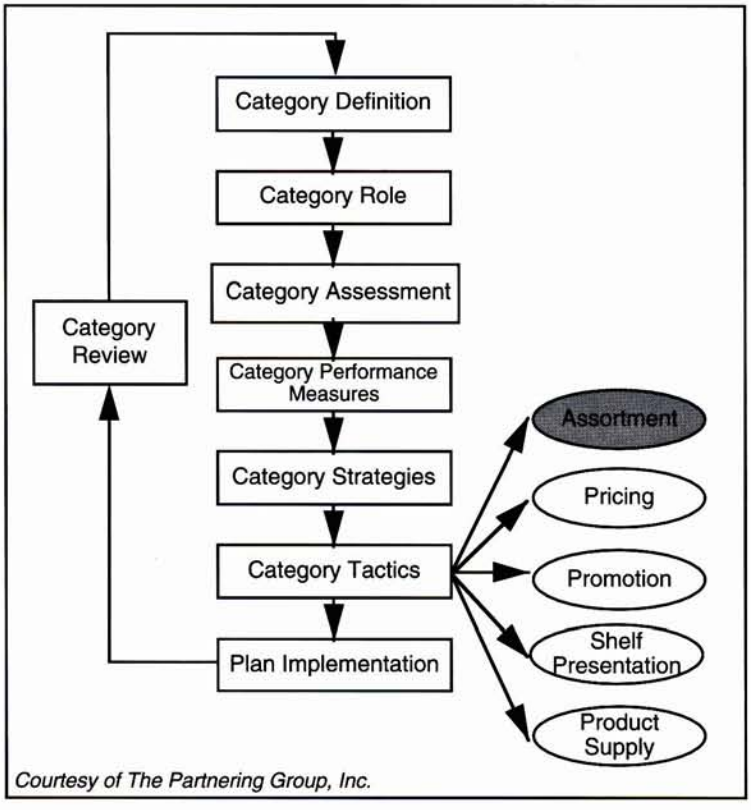
- More effective assortment: the new "effective" assortment increases the retailer's and supplier's category turnover and consumer satisfaction with category operating costs similar to the prior assortment.

- More efficient and effective assortment: the new "efficient" and "effective" assortment reduces the retailer's and supplier's category operating costs and increases the category turnover and consumer satisfaction compared to the prior assortment. Obviously, an efficient and effective assortment is the most desirable outcome.

CHAPTER 2: CATEGORY MANAGEMENT FRAMEWORK

While efficient assortment can be undertaken independently, it is best understood and practiced within the context of the Category Management process. As described in the ECR Europe Category Management Best Practices Report, that process identifies assortment as one of the five major "tactics" of Category Management; the other four being pricing, shelf presentation, promotion and product supply. These five tactics are addressed late in the Category Management process. This means assortment, as well as the other tactics, are likely to be influenced by the decisions made in earlier steps of the process as shown below:

Category Management Business Process



Courtesy of The Partnering Group, Inc.

In fact, every one of the earlier steps in the Category Management process has a potentially significant effect on assortment. In other words, no assortment can be considered truly efficient (and effective) until it has passed through the Category Management process. For example, how can an assortment be considered "efficient" until it is measured against performance measurement objectives? How can assortment be evaluated without the category being defined and properly segmented?

Corporate Strategy and Efficient Assortment

The corporate strategies of retailer and supplier trading partners will also impact assortment. For example, an every-day low price (EDLP) or high-low pricing strategy can influence the consumer or retailer "value" of a particular SKU, brand or even segment. A retailer or supplier target consumer strategy can also have implications on assortment decisions. Thus, it is important that retailers and suppliers consider their corporate strategies while practicing efficient assortment.

Category Definition and Efficient Assortment

Of all the steps in the Category Management process relevant to efficient assortment, defining the category and determining its structure or segmentation is one of the most important. Without a proper category definition and structure, improvements in assortment will be difficult to attain.

Supplier and retailer trading partners who are developing an efficient assortment as part of a comprehensive, cooperative category planning process will benefit from the discipline of defining the category.

The ECR Europe Category Management Best Practices Report defines a category as "a distinct, measurable and manageable group of products/services that consumers perceive to be interrelated and/or substitutable in meeting a consumer need." That report also identifies a process for defining a category: begin with identifying all the products that offer a similar consumer solution ("thirst quenching" in the case of beverages or "pain relief" in the case of analgesics) and end by narrowing a large group of products into those that are manageable and measurable thereby comprising a "category."

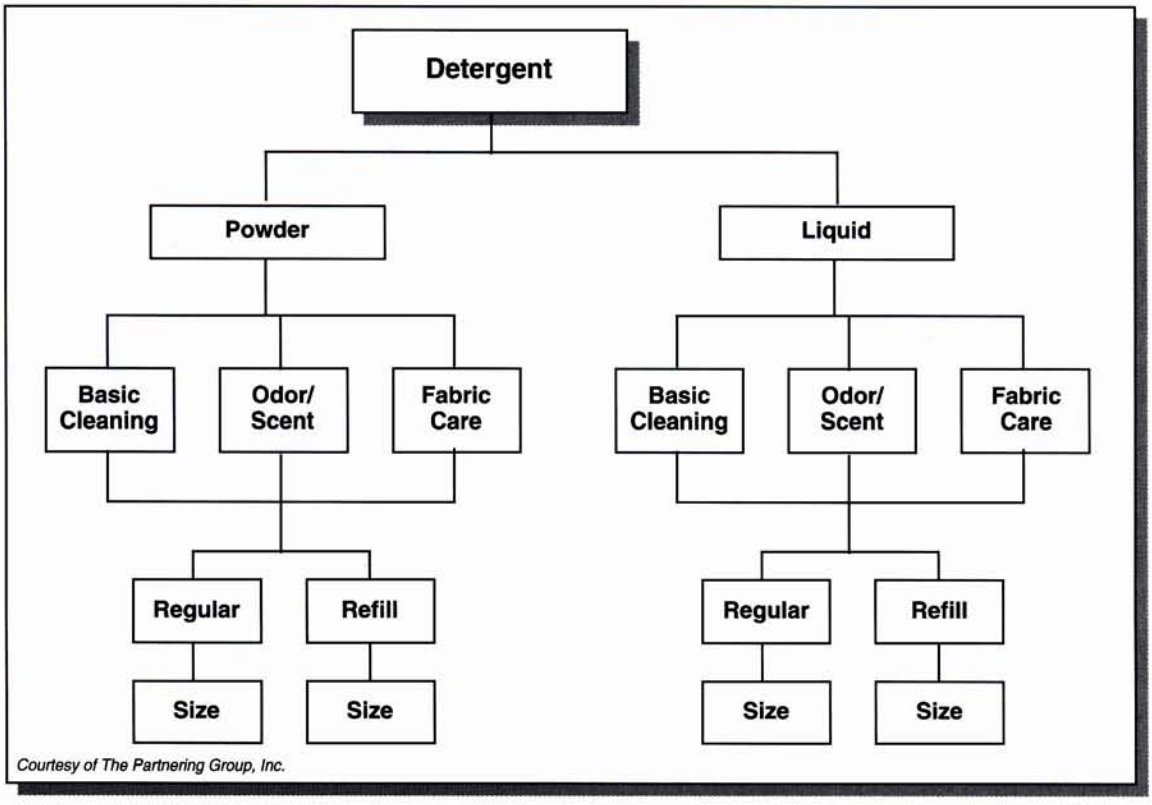
The second part of category definition is agreement on the category's structure or segmentation. Basically, consumers group brands, types and individual SKUs together in a way that matters to them and allows them to differentiate between SKUs to meet their needs.

In the pet care category, for example, consumers might start by segregating pet-type products (e.g., dog, cat, aquatic, etc.). Then they might further divide dog products into food and accessories and further divide dog food into dry, canned and soft/moist types. These individual groupings of products are known as "segments."

The relationship of the segments to one another in terms of perceived consumer importance is called the "structure" of the category. Structure implies a hierarchical relationship among the segments: a consumer makes a specific judgment first (e.g., what flavour do I want?) then proceeds to the second most important decision (e.g., what size?) then proceeds to a third decision (e.g., do I want a branded SKU or retail branded SKU?). Therefore, the structure of a category (the relationship of the segments) can be thought of as a road map that consumers use to wend their way through the maze of segments and SKUs to arrive at a purchase decision.

Structures differ from category to category. For example, the structure of the detergent category may look something like this:

Detergent Category Structure

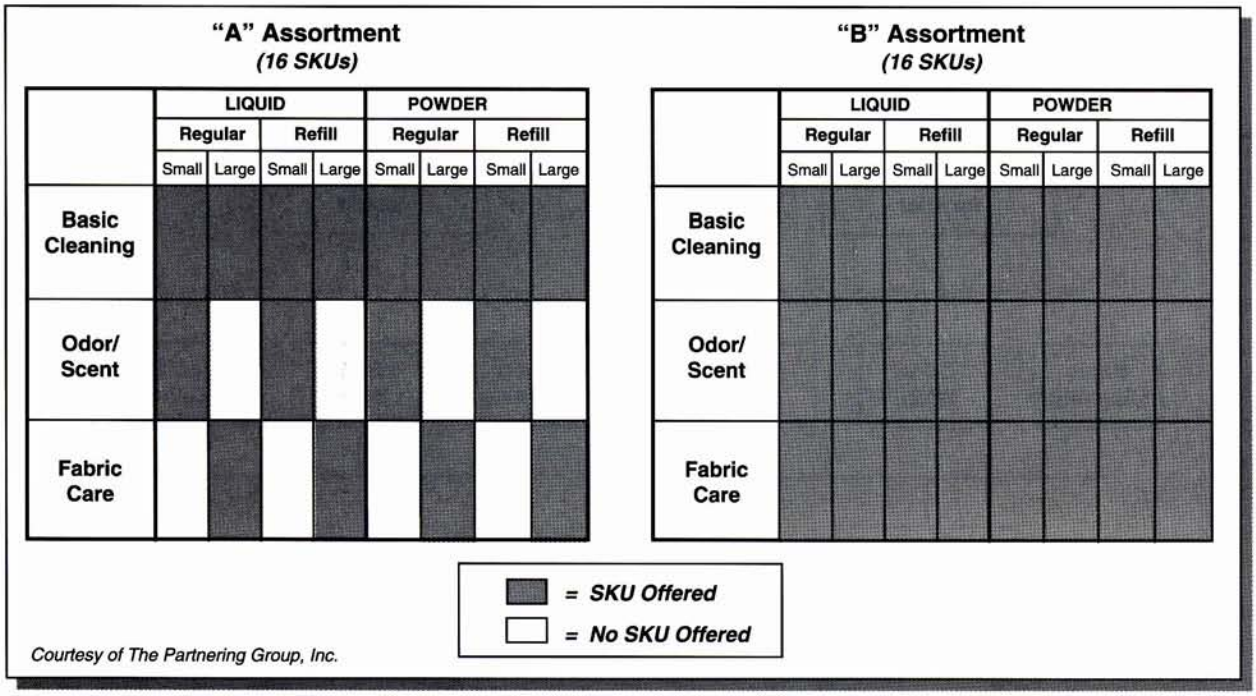


This structure suggests the consumer's decision proceeds as follows:

- First: Form (liquid or powder)
- Second: Product feature/benefit (odor removal/scent, basic cleaning, etc.)
- Third: Packaging (regular, refill)
- Fourth: Size (large, medium, etc.)

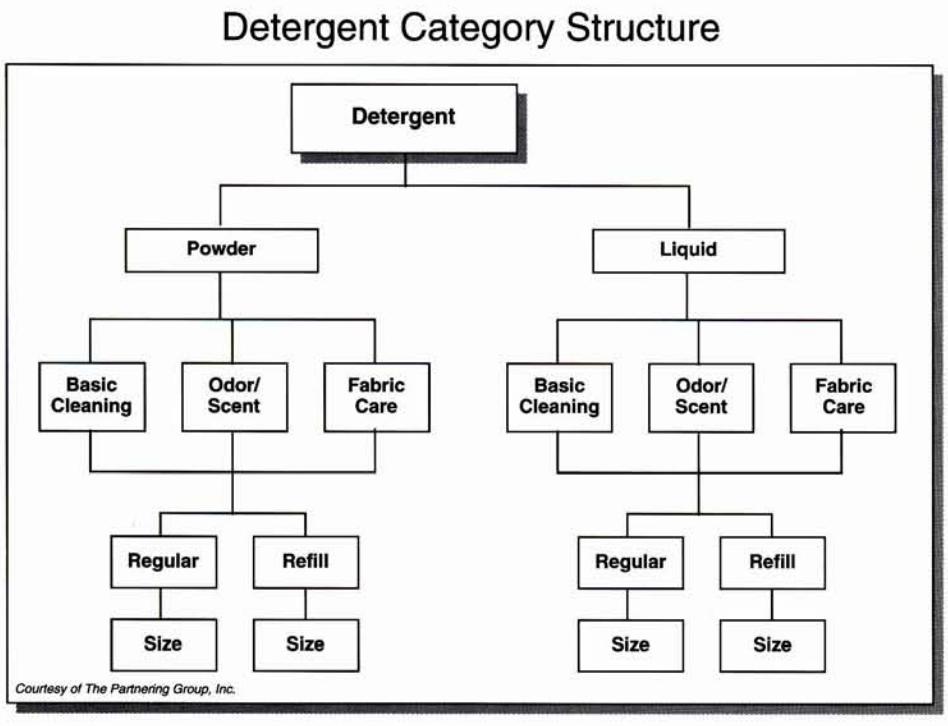
Category structures describe how consumers shop the category and what is important to them. For example, a consumer would typically be more concerned about having their preferred detergent form (e.g., liquid) and product feature (e.g., basic cleaning) available than their preferred packaging (e.g., refill) or size (e.g., large) based on the detergent category structure (above). A category structure does not imply that the segments lower in the structure are not important. All segments are important. However, retailers and suppliers must recognise that consumers feel some segments are more important than others.

A category structure also reflects the consumer's definition of product choice or variety. As a result, retailers and suppliers that have developed accurate, consumer-defined category structures are equipped with superior category choice and variety insights. For example, most consumers would consider the assortment entitled "A" (below) as having more variety than the assortment entitled "B" (below); even though they both offer the same number of SKUs:



As previously mentioned, consumer-oriented category structures provide valuable information about the consumer's definition of variety and choice. However, non-consumer-defined category structures can be very misleading and ultimately create inefficient and ineffective assortments despite utilising the ECR Assortment process provided in this report.

To illustrate this point, consider the detergent category structure highlighted below:



This structure suggests product price/performance (e.g., premium, economy, etc.) is a defining factor versus product feature/benefit (e.g., basic cleaning, odor/scent, etc.). As a result, one would need to determine whether the current assortment addresses each of the price/performance segments. For example, one could have plenty of choices within each product feature/benefit segment (e.g., basic cleaning, odor/scent, etc.); but when evaluated under the new structure may have all economy tier products with no middle and premium tier products.

Developing a consumer-oriented category structure. Efficient assortments are most likely to be built "from the ground up," segment by segment, consumer need by consumer need. In other words, first build the assortment segment by segment (do I want to include or exclude this specific consumer need?). Then ask how many choices the consumer needs within a segment (how many detergent SKUs do I need to offer?). Therefore, the foundation of efficient assortment is a sound category structure designed by the most accurate understanding of consumer behaviour.

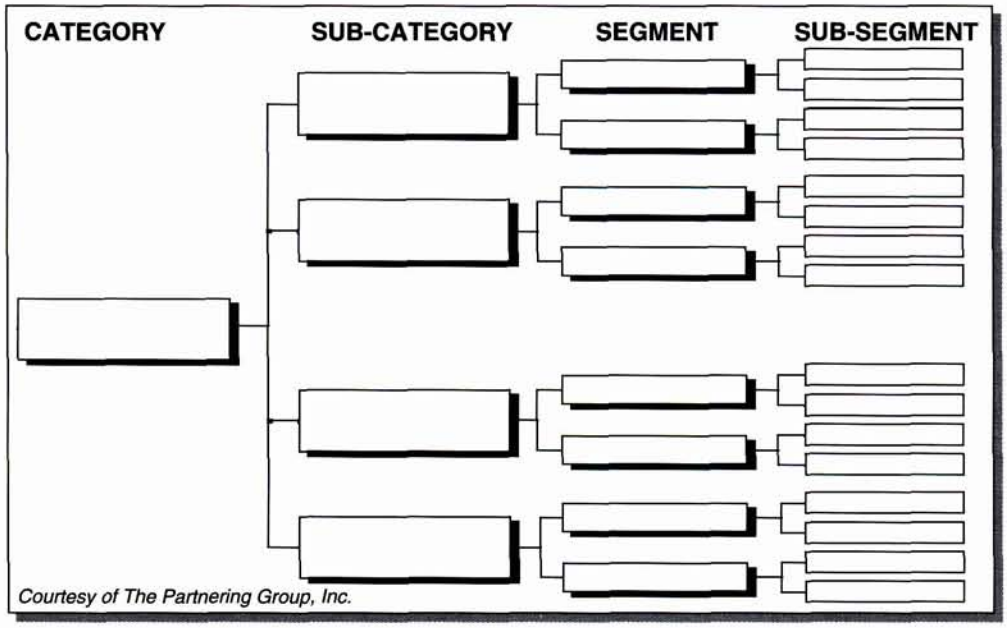
There are several methods retailers and suppliers utilise to develop accurate, consumer-oriented category structures. Some of these analytical methods are as follows:

Switching/Loyalty Behavioural Analysis:	Analysis of purchase-to-purchase household switching patterns, identifying repeat/loyalty behaviour in excess of random or fair share expectations.
Customised Studies:	Generally, a quantitative approach though qualitative research may be used as a guide. The structure is often developed from consumer purchase and/or usage data and may reflect psychographic techniques if appropriate.
Intercept Studies:	Consumer interviews are conducted during or after a category purchase to determine the consumer's category purchase hierarchy.
Card Sorts:	Consumers are asked to stack cards (depicting product choices) in piles representing similar products.
Cluster Analysis:	Multi-dimensional scaling and cluster analysis technologies are used to analyse interactions between brands and to group similarly interacting SKUs in clusters.
Markov Analysis:	An analysis technique that examines consecutive purchase pairs within a household. This information is summarised to determine transaction-to-transaction patterns.

Importantly, good category structures are often the result of integrating or combining the observations and conclusions from a number of these methods.

The following chart displays a blank category structure diagram with the various hierarchical tiers shown as "subcategories," "segments" and "subsegments."

Category Structure



Courtesy of The Partnering Group, Inc.

Category Role and Efficient Assortment

The role chosen for a category defines its relative importance within the retailer's portfolio of categories. When a retailer designates a category as "destination," it is more strategic than one designated as "convenience." Destination categories receive relatively more of the retailer's total assets (space, inventory, management time); they are considered to be more strategic in determining the consumer's choice of a retail store. Commonly used retailer category roles are described by the Category Management Best Practices Report as follows:

ECR Category Roles

Category Role	Retailer Objective
Destination	To be the **primary** category provider and help define the retailer as the store of choice by delivering **consistent**, **superior** target consumer value.
Preferred	To be the **preferred** category provider and help develop the retailer as the store of choice by delivering **consistent**, **competitive** target consumer value.
Occasional/Seasonal	To be a **major** category provider and help **reinforce** the retailer as the store of choice by delivering **frequent**, **competitive** target consumer value.
Convenience	To be a category provider and help **reinforce** the retailer as the store of choice by delivering **good** target consumer value.

Courtesy of The Partnering Group, Inc.

One might assume that a retailer offers consumers a broader choice in a "destination" category than a "convenience" category. (Breadth of choice is likely to be one of the factors a consumer uses to decide whether one retailer is preferred to another.) While this is generally true, there may be some convenience categories with large assortments given the unique dynamics and characteristics of the category. Therefore, an efficient assortment for retailer A — for whom category "widgets" is a destination category — may be different from the assortment in the same category for retailer B — for whom "widgets" plays a "convenience" role.

Category Assessment and Efficient Assortment

The category assessment process outlined in the ECR Category Management Best Practices Report analyses category performance and trends from four different perspectives: the consumer, the market, the retailer and the supplier. Each of these perspectives has implications for efficient assortment. If, for example, the retailer's target consumer concentrates purchases in a certain segment of the category, an efficient assortment might provide more choices in this segment.

Suppose the assessment shows significant market growth in one segment. Under these circumstances, an efficient assortment process might take this growth into account and suggest enlarging the assortment.

Performance Measures and Efficient Assortment

Category Performance measures are intended to serve as a gauge of success in the management of a category. These performance measures should include various internal measures (turnover, profits, etc.) and external measures (market share, consumer satisfaction, etc.) to insure appropriate balance among various operational and strategic concerns.

Some performance measures can have significant implications for assortment "efficiency." For example, suppose one of the category's performance measurement calls for an increase in gross margin return on investment (GMROI). To meet this measure might mean skewing the category assortment more toward direct-store-delivered (DSD), or high-turnover brands and away from warehouse-delivered or low-turnover brands. Similarly, a performance measurement goal of increasing a category's gross margin percentage might mean deleting lower gross margin SKUs from the assortment and adding higher margin SKUs, even though the lower margin SKUs are otherwise acceptable and fill some consumers' needs.

An assortment can hardly be considered "efficient" if it fails to enhance the chances of meeting the performance measurement objectives for the category and consumer needs. Therefore, the nature of the category performance measurement becomes an important determinant of the context of efficient assortment.

Category Strategy and Efficient Assortment

Category strategies will play an important role in defining appropriate product assortments. The Category Management Best Practices Report defines common strategies deployed within a category, e.g., a "traffic building" strategy, a "profit generating" strategy, a "turf protecting" strategy, etc. The specific strategy chosen will have implications for the efficiency of the assortment.

For example, if a key retail competitor is focusing on a specific set of SKUs as a critical part of its assortment, a retailer might "turf protect" by adding certain of those SKUs to its mix. Similarly, a "traffic building" strategy might include virtually all SKUs in segments with short purchase cycles and high household penetration.

Summary

An efficient assortment cannot be developed in a vacuum. Rather it should be developed within a Category Management context that has:

- A specific category definition and structure defined by consumer needs.
- A role describing the objective — or the "desired state"— of the category in the retailer or supplier trading partner portfolios.
- Consumer, market, retailer and supplier performance evaluated via an assessment.
- Specific business targets defined in a balanced set of category performance measures.
- Clear strategies such as "traffic building," etc. that are developed to ensure the category achieves the role and performance measure targets.

Each of these factors, discussed in detail in the ECR Europe Category Management Best Practices Report, helps create the appropriate framework in which an efficient assortment can be developed. This framework, in turn, helps ensure the assortment is truly efficient from a consumer, retailer and supplier perspective. The following chart provides an example of how the Category Management framework can influence the assortment.

Key Category Management Decisions Affecting Efficient Assortment

Category Structure
- Determine the correct segments
- Determine the products for each segment

Category Role
- Destination: may imply broader assortment
- Convenience: may imply narrow assortment

Category Assessment
- Underdeveloped segment: may imply assortment additions
- Target consumer-oriented segment: may imply assortment additions

Category Performance Measures
- Unprofitable segment: may imply assortment deletions or additions
- Aggressive turnover growth objective: may imply assortment additions

Category Strategies
- Transaction building strategy: may imply large-sized assortment additions
- Image enhancing: may imply unique or upscale assortment decisions
- Profit generating: may imply adding profitable and/or deleting unprofitable products

Courtesy of The Partnering Group, Inc.

CHAPTER 3: THE SIX-STEP PROCESS

To achieve an efficient assortment, practitioners combine the Category Management context and data in a process that logically addresses relevant issues.

The efficient assortment process described on the following pages begins with two assumptions:

- Category definition and structure focusing on the lowest level for which reliable data are available.
- Companywide, regional clustering and/or store-by-store assortment.

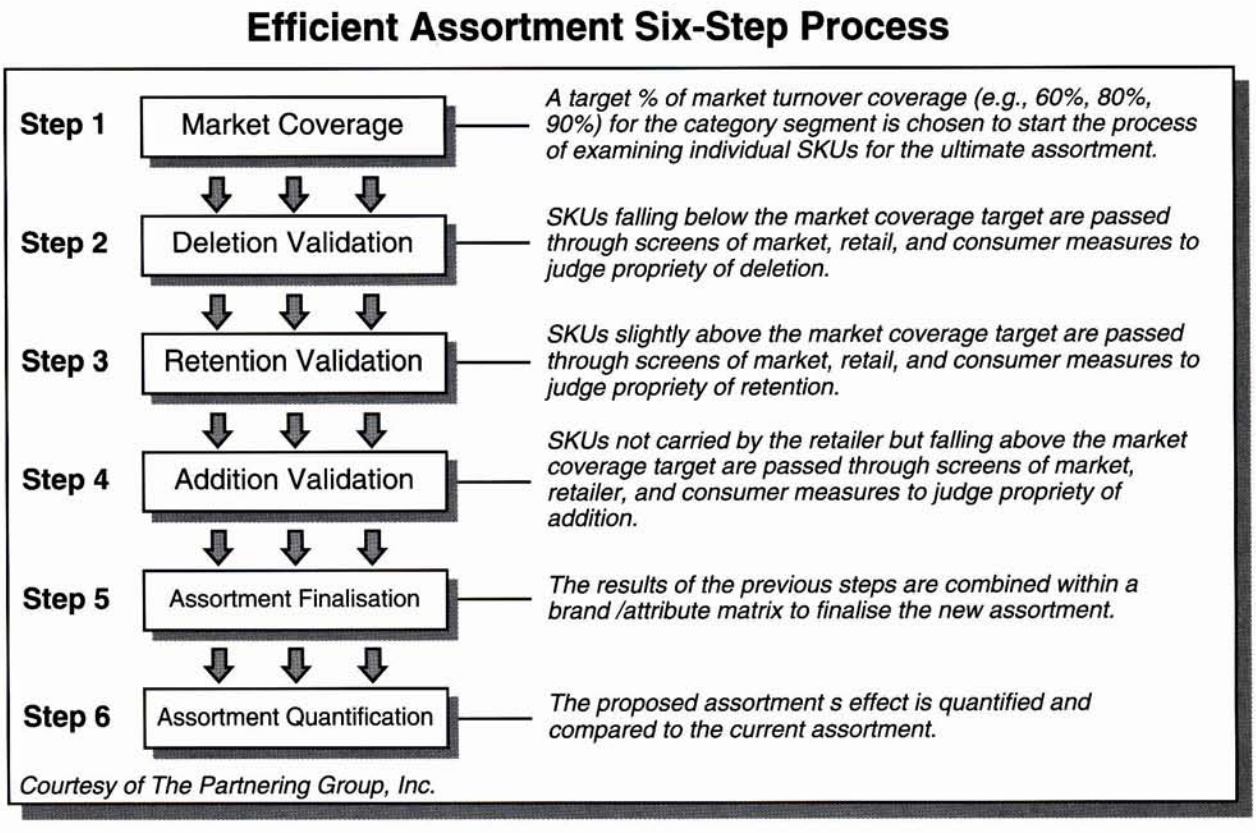
It is paramount that the retailer and supplier apply the six-step process on the lowest level deemed feasible and productive.

The process then takes the practitioners through a series of steps that guide decisions about adding, retaining or deleting SKUs. This is an activity that can be repeated several times: i.e., a specific SKU may be removed at one step only to be reincorporated in the final assortment for reasons that emerge from the process itself.

The process best takes place within the broader context of Category Management to which its output (an efficient assortment) becomes an important tactical input to a Category Business Plan. The process uses the data measurements previously described.

The Six-Step Efficient Assortment Process

The following chart previews the six steps of the Efficient Assortment process:



Each step of this process is now explained in more detail.

Step 1 — Market Coverage

Purpose

This step ensures that assortment is placed within the larger context of the Category Management process. It begins with a simple question: What percentage of the segment turnover or equivalent volume (e.g., kilograms, litres, etc.) should the assortment carried by the retailer represent in the marketplace? Should every SKU offered in the category in the market be carried, thereby having 100 percent market coverage, or should only those that are popular to the target consumer be carried, which hypothetically could result in a 60 percent market coverage?

Step I: Market Coverage

What is the appropriate market coverage for the retailer? (?) (?) (?)

	Market Turnover (Value)	% of Segment Turnover	% Cumulative Turnover of Segment
SKU 1	18,000	29.4%	29.4%
SKU 2	15,600	25.5%	54.9%
SKU 3	11,600	18.9%	73.8%
SKU 4	7,000	11.4%	85.2%
SKU 5	2,315	3.8%	89.0%
SKU 6	2,300	3.8%	92.9%
SKU 7	2,000	3.2%	96.0%
SKU 8	1,600	2.6%	98.6%
SKU 9	500	0.9%	99.5%
SKU 10	250	0.5%	100%
TOTAL	61,165	100%	100%

Courtesy of The Partnering Group, Inc.

Output

The output of Step 1 is a desired market coverage goal for each segment of the category until the specified percentage is reached. This is expressed as "85 percent of market coverage" or "70 percent of market coverage," where market coverage equals the cumulative percentage of share in the market calculated by adding the largest share SKU to the next largest, etc. This can be calculated in turnover (value) or turnover (equivalent volume). Most practitioners use turnover value. In practical terms, this means, for a variety of reasons discussed below, a choice is made to offer an assortment whose SKUs have a cumulative market-share coverage of X percent.

Four Factors to Consider to Reach Market Coverage Goals

The four key factors that need to be considered are:

1. Develop Market Coverage at the Segment Level

   First, this market coverage exercise should be carried out at the subcategory or segment level, not at the total category level. That is because each segment represents a specific consumer need that deserves to be considered. By contrast, conducting the exercise on a total category basis could result in an entire segment (consumer need) being removed from the final assortment if all of its SKUs happen to fall below the market coverage goal for the total category.

2. Managing the "80/20" Rule (The Assortment "Tail")

   Second, establishing a goal tends to focus practitioners' attention where inefficiencies are most likely to exist. Most categories exhibit a consistent pattern in which a few popular SKUs account for a large percentage of market coverage and then a large number of less popular SKUs account for a very small percentage of total market coverage. In one large, highly fragmented category, for example, the most popular 15 SKUs accounted for 95 percent of market coverage while the least popular 150 SKUs accounted for a cumulative 5 percent of total market coverage.

3. Selecting Broader or Narrower Variety

   Third, choosing a market coverage goal of, for example, 85 percent does not necessarily mean that the SKUs falling below that figure will be removed from the assortment. Nor does it mean that all SKUs above the 85 percent point will remain. It does mean that after considering the context of Category Management for this category and this retailer, 85 percent seems like an appropriate strategic goal. The objective is to focus on each segment's level of variety, e.g., "broader" or "narrower"; and compare each segment's variety.

4. Market vs. Internal Orientation

   Fourth, include all the SKUs offered in — and potentially beyond — the marketplace, not just the SKUs offered by the retailer whose assortment is under review. This helps identify SKUs that are above the market coverage goal but, for whatever reason, may not be included in the retailer's current assortment. In this respect, this initial step in the process helps focus attention on potentially unmet consumer needs and frequently results in the final assortment including SKUs not carried in the retailer's current assortment.

Process and Data Inputs

Market coverage asks practitioners to address several key inputs that, taken together, comprise the framework within which the category is being managed. These key inputs are:

- Corporate strategy (retailer and supplier)
- Category role
- Retailer target consumer
- Segment turnover/profit productivity
- Segment fragmentation
- Segment assessment findings
- Performance measurement (current and target)
- Category strategy(s).

Practitioners may also add other inputs if required to capture the context of the category.

The six-step process suggests that practitioners consider setting higher or lower market-coverage goals by segment, depending upon differing category role considerations, target consumer considerations, etc. The final recommended market-coverage goal for the various segments represents a balance of the responses to the key inputs. Practitioners should consider how they wish to weigh the various issues in arriving at a final coverage decision.

Experience to date suggests common patterns of market coverage will emerge, as practitioners consider the various key inputs. The ranges discussed below, however, should be viewed as examples, not as recommendations, because each category, market and retailer situation is unique.

- **Category Role** — Practitioners typically (but not always) choose the highest market coverage for "destination" categories, the lowest for "convenience" categories. Within destination categories, the highest coverage tends to apply to large segments with high-household penetration or purchase frequency. Retailers often offer maximum consumer choice in the "destination" categories, which tend to be the most important categories in their portfolio.

Category Role - Market Coverage Relationship
(A Retailer Example)

Category Role	Implied Market Coverage
Destination	Very high market coverage (90%+) in all major segments so that the retailer may credibly claim to offer substantial choice for virtually all the needs of nearly all consumers.
Preferred	High market coverage (80%+) in all major segments (+10% of category turnover) and medium coverage (66%+) of small segments. Virtually all consumers will find several acceptable brand, size, and type choices in every segment.
Occasional/Seasonal	Medium market coverage (66%+) in all major segments and some choices (33% market coverage) in smaller segments comprising 10% or less of total category turnover such that most consumers will find several SKU choices which they have purchased in the recent past.
Convenience	Limited offering of popular SKU's meeting the broad basic needs of the average consumer. Only brands/types with relatively high HH penetration and profit potential would be stocked.

Courtesy of The Partnering Group, Inc.

- **Retailer Corporate Target Consumer** — Practitioners choose the highest market coverage for those categories and segments of categories that are most closely aligned with the retailer's target consumer. Retailers have varying target consumers and, importantly, segments within the categories that appeal to different buying groups. For example, within analgesics, some segments, such as children's aspirin, appeal to families with children, some segments appeal to senior citizens with arthritis, others appeal to females in the 13 to 45 age group. Practitioners generally select differing market coverages for segments depending upon the alignment between the segment's buyers and the retailer's target consumer. High levels of alignment typically have high levels of market coverage, while low levels of alignment tend to have lower market coverage.

The table below shows an example of how data might be arrayed to facilitate a decision on turnover volume coverage. From this example, it might be concluded that segment "A" should have a high market coverage since 63 percent of the buyers are in the 40,000 to 60,000 income range, which is one of the retailer's target consumers.

Target Consumer Segment Alignment

Target Retailer Consumer Profile	% of Retailer Shoppers	% of Segment "A" Buyers	% of Retailer Turnover	% of Segment "A" Turnover
Income: 40,000 - 60,000	21	63	49	71
Household Head Age: 35 - 50	42	45	47	53
Household Size: 4+	29	29	30	40
Lifestage: Mature Family	36	48	44	52

Courtesy of The Partnering Group, Inc.

Some practitioners suggest an additional target consumer analysis for determining a segment's market coverage. This analysis assesses a segment's alignment with the category's heavy purchase users (versus the retailer's target consumer). This analysis can reveal that a particular segment, while not aligned to the retailer's corporate target consumer, may be closely aligned with the category's heaviest or biggest purchasers. As a result, this additional analysis can have a significant impact on the overall market coverage whenever a segment has heavy purchasers.

- **Turnover/Profit Productivity** — Practitioners vary market coverage according to the turnover and profit productivity of a segment. Segments that show relatively high productivity may receive high market coverages. Those segments that are relatively unproductive tend to receive proportionately lower market coverages. The table below provides an example of a productivity analysis. In this example, segment "C" may warrant a relatively high market coverage; segment "E" a relatively low coverage. Importantly, the productivity can vary widely among segments within the same category.

Segment Turnover and Profit Productivity

	Segment Share % of Category SKUs	Share (%) of Category Turnover	Turnover Productivity Index	Share (%) of Category Net Profit	Profit Productivity Index
Segment "A"	17%	22%	129	17%	100
Segment "B"	10%	12%	120	11%	110
Segment "C"	7%	14%	200	10%	142
Segment "D"	20%	18%	90	18%	90
Segment "E"	47%	34%	72	44%	94
Category Total	100.0%	100%	N/A	100%	N/A

Courtesy of The Partnering Group, Inc.

- **Fragmentation** — Within any given category, segments can differ in the characteristic often referred to as "fragmentation." This concept is best understood by comparing segments to ascertain how many SKUs are required to reach to a specific market coverage. In one segment, only 10 SKUs may account for 80 percent of the category turnover in a market, while in another segment 30 SKUs may be required to reach the same 80 percent level. In this case, the second segment is more "fragmented" than the first because it takes three times as many SKUs to achieve the same market coverage.

  Practitioners assign market coverages based on fragmentation differences. For example, highly fragmented categories sometimes receive lower market-coverage levels, while less fragmented categories may receive higher levels. Practitioners are typically more reluctant to have high-market coverages on highly fragmented segments (versus less fragmented segments) because of the costs associated with stocking a large number of SKUs that generate little incremental turnover. Some practitioners infer that individual SKUs may have less consumer appeal in highly fragmented segments and more consumer appeal in less fragmented segments. Varying segment coverages within a given category can create an overall more efficient assortment.

- **Assessment Findings** — As emphasised in this report, the efficient assortment process is best applied in the framework of a broader Category Management process that includes a comprehensive category assessment phase. Assessment findings often affect the market coverage levels. Below is an example of a series of market coverage implications for a particular retailer based on a few key assessment findings:

Assessment Findings - Market Coverage Implications
(Retailer Example)

Category/Segment Assessment	Implied Market Coverage
Category Consumption Increasing	Check growing segments and sub-segments by competitor. In a destination category, market coverage of at least 85% in growing segments. Monitor frequently, add new brands and SKUs appropriately.
Category Consumption Decreasing	Check declining segments and sub-segments. Reduce market coverage of declining brands, sizes and types in declining segments to a level well below that of major or stable segments.
Retailer Share Increasing	Check increasing share segments to ensure market coverage is adequate. Add coverage if necessary to maintain share momentum.
Retailer Share Decreasing	Check declining share segments to ensure decline not caused by inadequate market coverage. Increase coverage in those situations.
Relatively Unprofitable Category	Review profitability data by segment and SKU. Consider reducing market coverage in unprofitable segments to reduce monetary cost.
Relatively Profitable Category	Review profitability data by segment and SKU. Consider increasing market coverage of profitability segments and brands.

Courtesy of The Partnering Group, Inc.

Other factors revealed in the assessment phase could suggest higher or lower market coverage recommendations.

- **Performance Measure Implications** — Any Category Management plan should include performance measures. These measures have implications for assortment turnover volume coverage levels and recommendations.

  For example, those practitioners with a performance measurement objective of increasing category GMROI or ROA sometimes choose to lower recommended turnover volume coverage levels in low turn segments or low profitability segments. Conversely, those with a performance measurement objective of increasing category market share may choose higher recommended turnover volume coverage in major category segments, in segments where consumption is growing or in segments where

the retailer has a relatively low share. Other performance measurements could have similar implications for the assortment turnover volume coverage recommendation.

- **Category Strategy** — The development of a category strategy — assigning strategic strategies to SKUs in the assortment — is the final step before assortment in Category Management. For example, some SKUs or segments are part of a traffic building strategy, while other SKUs are part of a transaction building or profit building strategy. The category strategies can and often do imply various market coverage recommendations.

  For example, a segment that is part of a traffic building strategy can imply a high market coverage for high household penetration SKUs, for SKUs or segments with high growth rates or for SKUs with strong response to a promotion. A segment that is part of a transaction building strategy might suggest higher market coverage for SKUs or segments that have a large transaction value. The following chart illustrates how one retailer's category strategies impact category market coverage levels:

Category Strategy Implications
(Retailer Example)

Strategy for Segment	Implied Market Coverage
Traffic Building	Increase coverage of segments with highest share, highest HH penetration, fastest growth rates, highest response to advertising and display.
Profit Generating	Increased coverage of highest profit segments, segments appealing to high income households, larger families.
Turf Protecting	Increased coverage of segments, brands or types targeted by competition, increased coverage of fast growing segments or segments where share is declining.
Transaction Building	Increased coverage of larger sizes, higher priced segments and those purchased by high income households and larger families.
Excitement Creating	Increased coverage of fast growing segments, new products or segments which add timeliness, novelty, topicality or eye appeal to the category.

Courtesy of The Partnering Group, Inc.

- **The Market Coverage Decision** — To summarise the findings of Step 1, practitioners often use the segment market coverage summary chart similar to the example. Most do not simply average the various measurements to arrive at a recommended decision, because they feel that some of the elements deserve a greater weighting than others. Generally speaking, the category role, target consumer alignment and fragmentation carry somewhat greater weight in the final decision, but individual practitioners may wish to give other elements greater weight. In addition, a segment market coverage may vary by retail format (e.g., hypermart, metro store, etc.) and/or geographic regions. Practitioners will use regional or format-specific data when developing regional or format-specific market coverages.

Market Coverage Summary Chart
(Retailer Example)

Segment	Proposed Market Coverage	Current Market Coverage	Retailer Target Consumer Development		Heavy User Target Consumer Development		SKU Productivity		Fragmentation	Competitive Mkt Coverages		Growth Trends
			HH Income Index	HH Size Index	HH Income Index	HH Size Index	Turnover Productivity Index	Profit Productivity Index	Market Fragmentation (# of SKU's for 90% Cov)	Comp. "A" Market Coverage	Comp. "B" Market Coverage	Market Growth Index
Segment "A"	95%	82%	146	121	161	142	113	129	27	91%	95%	126
Segment "B"	85%	95%	91	91	87	89	112	105	72	86%	79%	95
Segment "C"	80%	85%	111	94	66	73	103	99	14	80%	90%	104
Segment "D"	65%	85%	74	81	70	66	71	65	19	70%	50%	77

Courtesy of The Partnering Group, Inc.

Importantly, the market coverage reflects a segment's importance to the retailer, supplier, and ultimately, consumer. Typically, the segment(s) with the highest market coverages are deemed most important while lower market coverages imply less importance within the category. Finally, a segment's fragmentation must be considered since highly fragmented segments often have higher operating costs because more SKUs are required to achieve a particular market coverage.

Once category market coverage decisions have been arrived at, practitioners are prepared to proceed to Step 2 of the process — SKU deletion validation.

Step 2 — Deletion Validation

Purpose

This step validates the deletion of SKUs below the desired market coverage for each segment by passing the SKUs through a series of consumer and retailer performance measure screens.

Step II: Deletion Validation

Segment "A"

	Market Turnover (Value)	% of Segment Turnover	% Cumulative Turnover of Segment
SKU 1	18,000	29.4%	29.4%
SKU 2	15,600	25.5%	54.9%
SKU 3	11,600	18.9%	73.8%
SKU 4	7,000	11.4%	85.2%
SKU 5	2,315	3.8%	89.0%
SKU 6	2,300	3.8%	92.9%
SKU 7	2,000	3.2%	96.0%
SKU 8	1,600	2.6%	98.6%
SKU 9	500	0.9%	99.5%
SKU 10	250	0.5%	100%
TOTAL	61,165	100%	100%

Products to be reviewed for deletion (that are stocked by the retailer)

Desired Market Coverage

Courtesy of The Partnering Group, Inc.

Output

There are two outputs from this step, based on consumer and retailer performance measurements:

- SKUs recommended (validated) for deletion; this set of SKUs fared poorly when evaluated.
- SKUs recommended for saving; this set of SKUs fared well when evaluated.

The Proc ess

Deletion validation passes each SKU currently stocked by the retailer and below the market coverage through two evaluations:

- Consumer performance evaluation.
- Retailer performance evaluation.

To facilitate the process, all relevant measurements are conveniently expressed as indices with all numbers above 100 being "good," i.e., a bias toward saving the SKU, and all indices below 100 suggesting the SKU should be considered for deletion. An index of 100 would be average for the segment.

- **Consumer Measures** — The relevant consumer measurements are discussed in Chapter 4 and include loyalty (share of requirements), worth of a consumer (annual category or segment purchase value of the household purchasing the SKU), exclusivity (percentage of consumers using only this SKU in the segment) and substitutability (the size of the consumer consideration set — the number of SKUs consumers consider as alternatives for the SKU in question). Please note that measures may be evaluated on the basis of brands or "secondary characteristics" such as sizes, flavours, package types, etc. Evaluating SKUs based on a secondary characteristic can often avoid low sample size (data accuracy) issues as well as reduce some of the data costs.

  The logic of the deletion validation step is as follows:

- A SKU below the market coverage cutoff (stocked by the retailer) with above-average segment "loyalty" should probably not be deleted. To the consumers purchasing the SKU it accounts for a disproportionate amount of their annual consumption of the category and elimination of the SKU may lead to store switching or a decline in segment consumption.

- A SKU below the market coverage cutoff (stocked by the retailer) with above the segment average "consumer worth" should probably not be deleted because it appeals to consumers who are the largest purchasers of the category or segment. Deletion increases the risk that the most valuable consumers will seek to fulfill their category needs at another retailer.

- A SKU below the market coverage cutoff (stocked by the retailer) with above average "exclusivity" should probably not be deleted because the SKU seems to have a disproportionately large number of consumers who use only this SKU in the segment. Therefore, deletion increases the risk that these consumers would go elsewhere to meet needs being satisfied exclusively by this SKU in this segment.

- A SKU below the market coverage cutoff (stocked by the retailer) with below-average substitutability (that is, an SKU for which the consumer has few acceptable substitutes) should probably not be deleted because the consumers may feel their choices too constricted. In this case, deletion could result in the consumer's switching retailers to obtain an acceptable range of SKUs.

Consumer Deletion Validation Chart

Segment "A"	Loyalty Index	Consumer Worth Index	Exclusivity Index	Switching Index*	Most Preferred Substitute
SKU A	110	135	135	120	SKU C
SKU B	80	70	85	60	SKU D

Courtesy of The Partnering Group, Inc.

*Switching Index: to remain consistent (above 100 index is good) a switching index above 100 implies *lower than average* switching.

The example above compares two SKUs, both below the market coverage cutoff, but having very different consumer performance evaluations. SKU A, which is average (within the segment) or above average on every consumer measure, would probably be saved, while SKU B would most likely be deleted based on a relatively poor consumer performance.

Please note that the chart also includes a reference to the "most preferred substitute" for this SKU. This is a convenient way of insuring the final assortment includes an acceptable SKU if a decision is reached to delete this specific SKU.

At this point in the process, practitioners move to the retailer evaluation and begin comparing the SKUs below the market coverage cutoff on retailer and supplier performance measurements.

- **Retailer and Supplier Performance Measurements** — The relevant retailer and supplier performance measurements are discussed in Chapter 4 and include percentage of market availability, average cash rate of sale in the marketplace; average cash rate of sale at the retailer, turnover per meter, retailer (and supplier) profit, and retailer (and supplier) productivity (GMROI or ROI).

  All measurements except percent market availability are expressed as indices versus the average for the segment to facilitate comparison.

  The logic of the deletion validation step is as follows:

  - A SKU below the market coverage cutoff (stocked by the retailer) but having above-average average cash rate of sale in the market should probably not be deleted because, where it is in distribution, it is doing well. The SKU only appears below the market coverage cutoff line because it is in relatively limited distribution.

  - A SKU below the market coverage cutoff (stocked by the retailer) but having above-average average cash rate of sale in the retailer should probably not be deleted. It seems to be doing relatively well where it counts the most, in the retailer's own stores.

  - A SKU below the market coverage cutoff (stocked by the retailer) but having above-average turnover per meter in the retailer should probably not be deleted because it seems to be a relatively productive user of space, one of the retailer's prime assets.

  - A SKU below the market coverage cutoff (stocked by the retailer) but having above-average profit contribution should not be deleted. Its profit contribution compensates for its smaller absolute volume.

  - A SKU below the market coverage cutoff (stocked by the retailer)but having above-average productivity (GMROI or ROI) should probably not be deleted. It is a relatively productive user of total system assets (supplier and/or retailer inventory turnover, shelf and warehouse space, etc.).

The example below compares two SKUs, both below the market coverage cutoff range, but having widely different retailer performance evaluations. SKU A, which is average or above average on every retailer measure, would probably be saved while SKU B would most likely be considered for deletion based on relatively poor retailer performance.

Retailer Deletion Validation Chart

				Retailer* Measure			Competitive Availability (YES/NO)	
Segment "A"	Share of Segment	% Market Availability	Avg. Market Cash Rate of Sale	Avg. Retailer Cash Rate of Sale	Turnover/ Meter Index	Profit Index	Comp. #1	Comp. #2
SKU A	4.5	48%	120	125	116	120	Y	Y
SKU B	4.5	65%	90	80	80	95	Y	N

Courtesy of The Partnering Group, Inc.

*Could also review supplier profit.

At this point in the process, practitioners have passed all SKUs below the desired market coverage that are stocked by the retailer through both the consumer and retailer performance evaluations. Practitioners can now divide the SKUs into two groups:

- SKUs that should be deleted.
- SKUs that should be saved.

These SKUs are then put aside for a final review, which takes place in Step 5, assortment finalisation, and Step 6, assortment quantification.

At this point, practitioners move to Step 3 — SKU retention validation.

Step 3 — Retention Validation

Purpose

This validates retention of the SKUs that are slightly within the desired market coverage and are currently stocked by the retailer. As in Step 2, each SKU is evaluated for its consumer and retailer performance.

Step III: Retention Validation

Segment "A"

Products to be reviewed for retention (that are stocked by the retailer

	Market Turnover (Value)	% of Segment Turnover	% Cumulative Turnover of Segment
SKU 1	18,000	29.4%	29.4%
SKU 2	15,600	25.5%	54.9%
SKU 3	11,600	18.9%	73.8%
SKU 4	7,000	11.4%	85.2%
SKU 5	2,315	3.8%	89.0%
SKU 6	2,300	3.8%	92.9%
SKU 7	2,000	3.2%	96.0%
SKU 8	1,600	2.6%	98.6%
SKU 9	500	0.9%	99.5%
SKU 10	250	0.5%	100%
TOTAL	61,165	100%	100%

Desired Market Coverage

Courtesy of The Partnering Group, Inc.

Output

There are two outputs from Step 3, based on consumer and retailer performance measurements:

- SKUs recommended (validated) for retention: this set of SKUs fared well when evaluated.
- SKUs recommended for deletion: this set of SKUs fared poorly when evaluated.

The Process

Retention validation reviews SKUs that are typically five market coverage points above the desired market coverage cutoff based on the same consumer and retailer performance measurements as in Step 2 .

The measurements, process and logic are identical. Of course, individual SKUs will perform differently based on the consumer and retailer performance measurements. As one might expect, the performance of these SKUs is generally better than those of the SKUs examined in Step 2, because the SKUs reviewed here tend to be more popular in the marketplace.

Interestingly, some SKUs above the desired market coverage may not perform well on some (or all) of the consumer and retailer measurements. As a general observation, however, practitioners tend to keep most SKUs within the desired market coverage for two reasons:

- First, the performance measures of these SKUs tend to be relatively good.

- Second, the practitioners have made a decision that a specific market coverage is important and desired for their unique situation. They are logically driven to offer an assortment that achieves this objective despite what the evaluation may reveal.

Once practitioners have completed this step, the results are retained for final disposition in Steps 5 and 6. At this point, practitioners move to Step 4 — SKU addition validation.

Step 4 — Addition Validation

Purpose

This validates the possible addition of SKUs within the market coverage desired, which are not currently stocked by the retailer.

Step IV: Addition Validation

Segment "A"

Products to be reviewed for addition (that are not stocked by the retailer)

	Market Turnover (Value)	% of Segment Turnover	% Cumulative Turnover of Segment	Stocked by retailer
SKU 1	18,000	29.4%	29.4%	Y
SKU 2	15,600	25.5%	54.9%	Y
SKU 3	11,600	18.9%	73.8%	N
SKU 4	7,000	11.4%	85.2%	Y
SKU 5	2,315	3.8%	89.0%	N
SKU 6	2,300	3.8%	92.9%	Y
SKU 7	2,000	3.2%	96.0%	Y
SKU 8	1,600	2.6%	98.6%	Y
SKU 9	500	0.9%	99.5%	N
SKU 10	250	0.5%	100%	Y
TOTAL	61,165	100%	100%	

Desired Market Coverage

Courtesy of The Partnering Group, Inc.

Output

There are two outputs from Step 4, based on the consumer and/or retailer performance measurements:

- SKUs recommended (validated) for addition: this set of SKUs fared well when evaluated.
- SKUs recommended not to be added: this set of SKUs fared poorly when evaluated.

The Process

Addition validation varies somewhat from deletion and retention validation. The six-step process uses consumer and retailer performance measurements, but employs slightly different retailer measures as the retailer is not stocking the SKU and cannot supply measurements reflecting its experience. Therefore, the six-step process suggests using marketplace turnover measurements and extrapolating them to the retailer (e.g., if SKU X moves at Y rate of sale in the market, we assume it would move at a similar rate in the retailer-generating a "fair share" of turnover and profit). With this exception, the process and logic are identical.

SKUs currently unlisted but within the desired market coverage usually get added to the final assortment because their consumer and projected retailer performance are exceptional. Additionally, these SKUs tend to be stocked by major competitors of the retailer. Lastly, some retailers and suppliers find that the failure to stock these relatively popular SKUs often reflects itself in segment assessment trends.

Once practitioners have completed this step, the results are retained for final disposition in Steps 5 and 6.

Step 5 — Assortment Finalisation

Purpose

This finalises the assortment by reflecting the various decisions (delete, retain, add) from Steps 2, 3 and 4.

This step, like all preceding steps, is most effectively executed at the level of the segment or subcategory.

Step V: Assortment Finalisation

	PRODUCT SIZE		
Segment "A"	**SMALL**	**MEDIUM**	**LARGE**
Brand "A"		**Retained**	**Deleted**
Brand "B"	**Retained**	**Added**	
Brand "C"	**Retained**	**Retained**	
Brand "D"	**To Be Developed**	**Retained**	**Deleted**
Own Label	**Added**	**Retained**	**Deleted**
Total Assortment	**4**	**5**	**0**

Courtesy of The Partnering Group, Inc.

Output

The output of Step 5 is a recommended assortment that reflects the results of the previous decisions made regarding market coverage, consumer and retailer measurements.

The Process

Assortment/recommended finalisation is basically a quantitative and qualitative comparison of the current assortment with the "new" assortment. Experience shows this process is significantly facilitated by arranging SKUs in a segment or subcategory in a matrix, with brands down one axis and a second characteristic like size, flavour, etc., along the other axis.

- Compare the number of SKUs offered by brand and by size, flavour, etc., in the new versus the old assortment.
- Check desired market coverage in the new assortment versus the original coverage goal.
- Review the reason for adding or deleting each SKU. What was the principal consumer or retailer performance reason for your decision?
- Where an SKU was deleted, check to insure that an adequate alternative exists for the consumer.
- Review all the important consumer characteristics in the market (price point, package type, formula variation) to ascertain consumer choice and market share coverage within each characteristic.
- Experience suggests that only a small number of additional changes will be made at this point based on rational, principled, fact-based choices.

At this point, the assortment is "finalised" and practitioners move to Step 6 — assortment quantification.

Step 6 — Assortment Quantification

Purpose

This quantifies the decisions made by comparing the current and proposed assortments on a variety of performance measurements.

Output

The output is a quantified final assortment ready for recommendation to management as part of the Category Business Plan. This assortment recommendation is then used as a basis for the development of related tactics in pricing, shelf presentation, promotion and product supply/logistics.

The Process

The process consists of comparing the proposed and current assortments on a variety of consumer performance measurements.

Step VI: Assortment Quantification (Decision Recap)

	Market Share	# SKUs		Market Coverage		Share Per SKU		New vs. Old Assortment Index		
		OLD	NEW	OLD	NEW	OLD	NEW	Loyalty	Consumer Worth	GMRO
Segment "A"	18	21	16	94	82	0.8	1	110	106	109
Segment "B"	30	16	9	91	75	2.5	3	115	108	112
Segment "C"	12	9	8	91	85	1.3	1.5	104	110	109
Segment "D"	23	26	21	92	80	0.9	1.1	115	108	110
Segment "E"	17	55	30	88	80	0.3	0.6	130	115	125

Courtesy of The Partnering Group, Inc.

Begin by defining both assortments. The next is to array both by segment, comparing:

- Market share of the segments
- Number of SKUs
- Market coverage
- Indices of loyalty/consumer worth/GMROI

All of these data are normally available from the previous steps in the process. The example above describes how such a comparison might look in one category.

Then compare the assortments on various retailer performance measurements such as:

- Turnover
- Profit
- Inventory
- GMROI/ROA

This is done by using data from the retailer regarding the current assortment. As far as the proposed assortment is concerned, practitioners may use data from previous tests of similar assortments or they may use norms developed from tests across a variety of categories. The four key assumptions are:

- Adjust current category turnover upward — assume new SKUs will attain the same turnover rate by the retailer as they have in the market (cash rate of sale in the market) and assume that the percentage of that new turnover accounted for by exclusive users will be incremental to the category by the retailer. In other words, only a portion of the SKU's turnover is net extra to the category and this adjustment will correct for a straightline estimation of turnover potential based solely on market availability.

- Adjust current category turnover downward — assume deleted SKUs will reduce the category turnover by 10-33% of their current turnover contribution. This assumes deleted SKUs have fared low on the consumer validation and most of the existing turnover will transfer to remaining SKUs in the category.

- Adjust category profitability by adding the gross margin from the incremental turnover to the retailer's current category profitability.

- Reduce inventory by that of the deleted SKUs; add inventory of new SKUs at average segment or category levels.

The example below depicts how this comparison might appear.

Step VI: Assortment Quantification

Performance Measure Impact

	Turnover (Value)	Profit	Inventory (Value)	GMROI
Current	475,000	158,000	40,200	3.94
New	480,000	160,000	26,800	6.00

Courtesy of The Partnering Group, Inc.

Category Management Process Integration

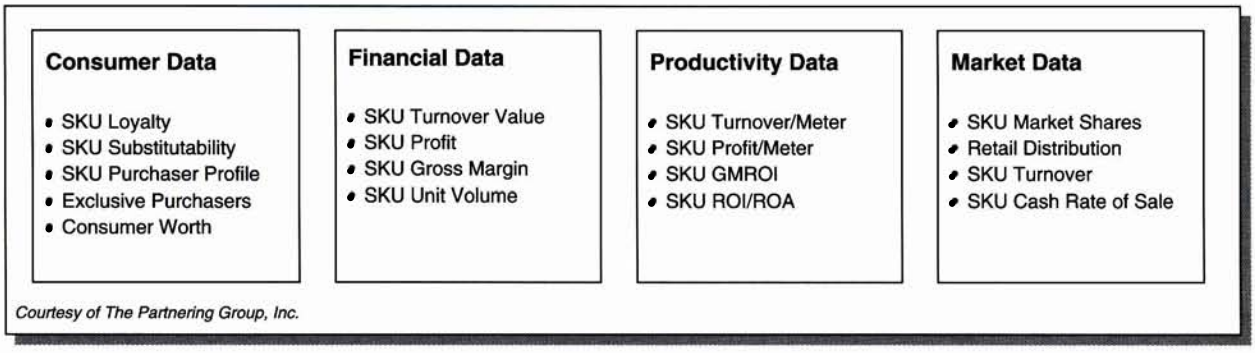
If these six steps have been completed in the context of completing a Category Business Plan, the Assortment Quantification impacts are then incorporated into the overall category performance measures (scorecard) to reflect the expected results from the proposed assortment tactics.

CHAPTER 4: DATA INTEGRATION

Assortment decisions have always relied on various kinds of data. In most cases these have been the retailer's own internal movement data, often augmented by profitability measurements, sometimes enhanced by market-share trend data.

The suggested ECR efficient assortment process uses a broader array of data from the following types:

Efficient Assortment Data



The synergistic combination of these data types enables the process described in Chapter 3. Most importantly, the addition of the consumer data enables the practitioner to make more informed assortment decisions than have been made in the past. The six-step efficient assortment process described in Chapter 3 can be used without the expense or time of obtaining an absolutely perfect array of all the data, provided a reasonable cross section from each of the main data types is available.

Consumer Data

Household/Diary Panel Data. These data types are usually referred to as "household panel" data or sometimes "diary panel" data. Data suppliers, such as AGB, Gfk, IRI, and ACNielsen, capture data by household at the individual SKU level and then present and/or manipulate the data in various ways. For example, data suppliers can present and/or analyse whether households buy one particular brand or size in a category or whether they switch among several brands/sizes/types. For some retailers, retail brands may be viewed as a brand with the same dynamics as branded products. For others it may operate on a different dynamic and have a unique role.

Retailer Loyalty Card Data. Customer loyalty cards are another valuable source of consumer data for the assortment process. Advanced practitioners supplement (not replace) the panel data with loyalty card data. One of the most valuable measures provided by customer loyalty cards is a consumer's worth to the category and to the retailer's overall business. Retailers and suppliers would want to avoid removing SKUs that may be low in turnover but are frequently purchased by the most valuable consumers in the category and/or, especially, the entire store. It must be recognised, however, that loyalty card data only captures consumer purchases within the specific retailer. Panel data is needed to analyse loyalty patterns across retailers.

Household panel and/or retailer loyalty card data allow practitioners to calculate measurements such as:

- Loyalty to brands, segments, sizes, types, etc.
- Exclusivity of purchase.
- Brand switching/substitutability.
- Worth of a consumer (the annual value of category purchases).

Each of these measurements can play an important role in developing a more efficient and effective assortment.

Loyalty

Loyalty is defined as "share of requirements satisfied." It measures the percentage of a purchaser's annual category needs that are satisfied by a specific brand, segment, subcategory, etc. For example, if the average purchaser of detergent bought 10 kilograms per year but that the average purchaser of Brand A only bought 5 kilograms of that product annually, one could estimate that Brand A's loyalty or share of requirements satisfied was 50 percent.

The actual calculation of share of requirements, however, is somewhat more sophisticated than described above. Specifically, syndicated data suppliers typically identify only consumers who have purchased Brand A at least once in the past three, six or 12 months and create a universe of those consumers. Then they add together the volume in the category purchased by these consumers and take Brand A's share of requirements satisfied within that consumer set. These consumers may be relatively heavy or light users of the total category. The purpose of the loyalty measure is to gauge the extent to which Brand A's consumers fulfill their requirements with Brand A, whatever their total requirements may be.

The value of this loyalty measurement in the efficient assortment decision can be illustrated by the following example. Suppose a retailer has room for only one more SKU on the shelf and three SKUs are competing for the space — one with a loyalty of 80 percent, one with 40 percent and one with 20 percent. All other factors being approximately equal, stocking the SKU with the highest consumer loyalty reduces the chance of that brand's loyal consumers going to another retail location to satisfy their needs in the category.

Exclusivity of Use

Exclusivity of use is defined as the percentage of a brand, segment or subcategory user base that has purchased only Brand A (Segment A, etc.) for a specified period of time (last three, six, or 12 months). When a brand's exclusivity of use is reported as 30 percent, it means that 30 percent of buyers bought it and no other brand in the category during that period.

In some categories, like soft drinks, where multiple brand purchases for different household members is commonplace, the exclusivity measure may not be particularly meaningful. But in many categories the exclusivity measure can have significant value: it can help pinpoint the SKU to which consumers are so strongly attached that they will almost surely postpone a purchase or, even worse, go to another retail location in search of that SKU.

The subtle difference between loyalty and exclusivity can be explained as follows: A SKU with a loyalty rating of 40 percent could have a consumer base with no exclusive users. Therefore, an assortment that excluded this 40 percent loyal SKU would probably include other SKUs that its user base purchased in the past. By contrast, if a SKU has a 40 percent exclusive user base, it means that 40 percent of its consumers have not purchased a competitive SKU recently and that removing this SKU from the assortment would probably drive a significant number of these exclusive consumers to another retail location.

Worth of a Consumer

The "loyalty" and "exclusivity" concepts do not measure usage levels of the category. A SKU that satisfied a high percentage of category requirements might be purchased by light users of the category. Similarly, a product with a low percentage of exclusive users may be bought by heavy consumers of the category.

The "worth of a consumer" measurement provides the critical perspective on total category consumption. The measure is often expressed as an index versus total category consumption: Brand A or Size B with a "worth of a consumer" index of 120 is purchased by consumers that purchase 20 percent more of the category than the average consumer of the category.

This measurement can be particularly useful in large categories with a multitude of segments, brands and sizes, because it often reveals that some smaller, low-share SKUs are purchased by heavy consuming households. Therefore, removing this small share SKU exposes the retailer to the possibility of alienating the category's most valuable consumer.

Substitutability/Brand Switching

Retailers studying the removal of SKUs from their assortment will be most concerned about driving the consumer of that SKU to another retailer. Measures such as "loyalty" and "exclusivity" can provide valuable perspectives on the magnitude of the risk associated with removing a SKU or, conversely, the opportunity associated with adding a SKU.

The concept of substitutability, or brand switching, provides additional perspective on this subject. Substitutability measures the percentage of a brand's purchasers who also purchase other specific brands (or sizes, or types) in the category. This measurement permits a retailer to gauge whether consumers of a SKU being considered for deletion (or addition) have other choices in the assortment that they have purchased in the recent past.

The following table illustrates a switching matrix for a category consisting of four branded SKUs and a private-label SKU. The table is read from top to bottom as follows: 100 percent of Brand A's consumers purchased Brand A, but only 10 percent of Brand A's consumers also purchased Brand B. In the same group, 25 percent purchased Brand C, etc.

Now read below Brand C. Note that 60 percent of Brand C's consumers also purchased Brand B. Read below Brand D and note that 75 percent of its consumers also purchased the retail branded product.

Brand Switching/Substitutability Matrix

% of column also purchasing row*

	Brand A	Brand B	Brand C	Brand D	Retail Brand
Brand 1	100	30	45	10	10
Brand 2	10	100	60	25	10
Brand 3	25	45	100	45	10
Brand 4	10	15	20	100	35
Retail Brand	5	5	10	75	100

Courtesy of The Partnering Group, Inc.

* Table is read downward as follows: 10% of those purchasing Brand 1 also purchased Brand 2; 25% of those purchasing Brand 1 also purchased Brand 3, etc.

These figures suggest that if Brand C were to be deleted from the assortment, a large percentage of the brand's users would probably switch to Brand B. Similarly, deleting Brand D would probably result in a large percentage of its users switching to the retail brand.

Data of this type can be manipulated in various ways to measure the relative propensity of a brand's consumers to switch within a set of alternatives. When used in concert with the other consumer, market, and retail data, substitutability measurements can lead to a more efficient assortment.

Market Data

While the consumer diary panel data may be less familiar, market data are familiar to most practitioners and have increasingly been used in assortment decisions.

Specifically, the data are provided by syndicated data suppliers and includes for each SKU:

- Share of category turnover.
- Share of segment turnover.
- Percentage of market availability.
- Cash rate of sale in the market.

The latter measurement permits adjustments for SKUs that sell extremely well but show up as only a small share of the total market because they are only available in a small percentage of the market.

The data sets mentioned above can be analysed in various ways to facilitate efficient assortment decisions. The most basic use of market data is to identify the percentage of the category represented by the SKUs in a specific assortment. For example, in Segment A, the retailer may stock 10 SKUs whose cumulative share equals 95 percent of the segment (a 95 percent coverage factor). In Segment B, however, the retailer may stock 15 SKUs whose cumulative share adds up to only 80 percent of that segment (an 80 percent coverage factor).

Please note that this market data is more valuable when it includes all relevant channels of distribution rather than only one channel (e.g., multiple grocers).

Financial and Productivity Data

Retail turnover, profit and productivity data, by definition, are unique to each retailer engaged in the efficient assortment process. Some advanced retailers are using activity based costing to provide superior measures of the true costs, profitability and return on brands/SKUs through their supply systems.

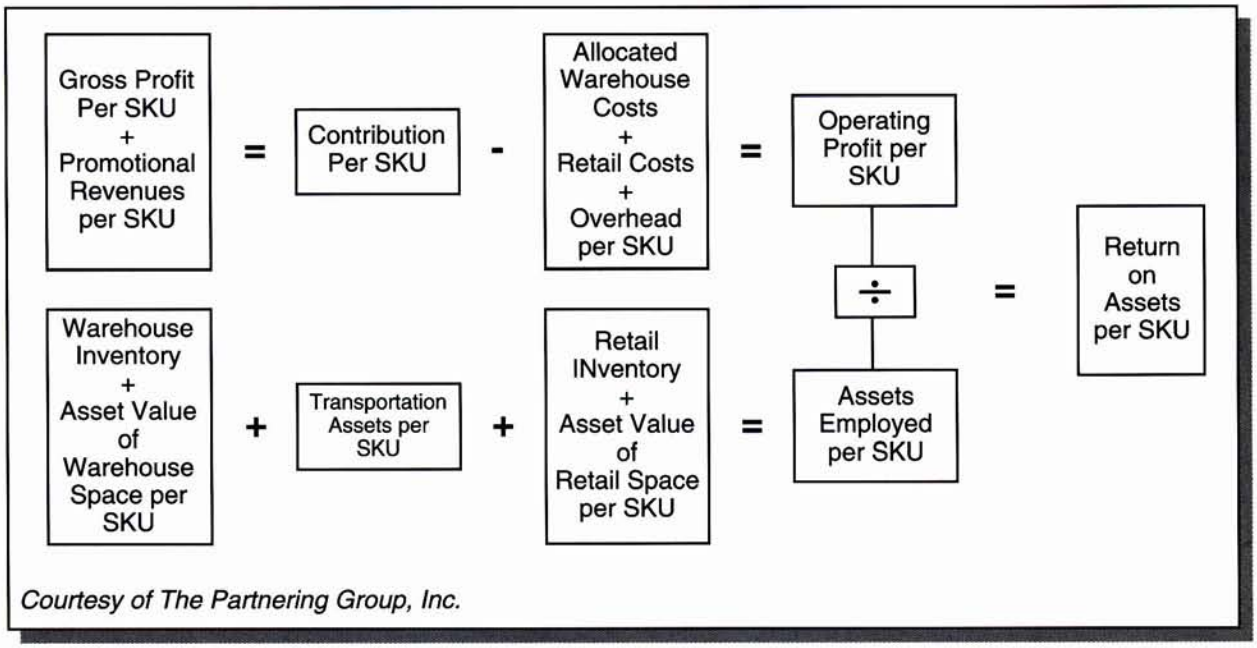
More typically, however, the specific measures used in the process are:

- Retail profit per SKU.
- Retail turnover per square meter per SKU.
- Gross margin return on investment (GMROI) or return on assets (ROA) per SKU.

These data are more easily used when expressed as an index versus the average of all SKUs in a segment.

Experience suggests that some of these data can be difficult to generate in certain categories. Reliable ROA and net profit data are rarely available at this stage in the industry's development. By contrast, some productivity data (turnover per meter) are now generally available because of the widespread use of space management systems. For the time being, these less sophisticated measurements can substitute for the more robust ROA per SKU measurement summarised below:

Return on Assets (ROA) Model

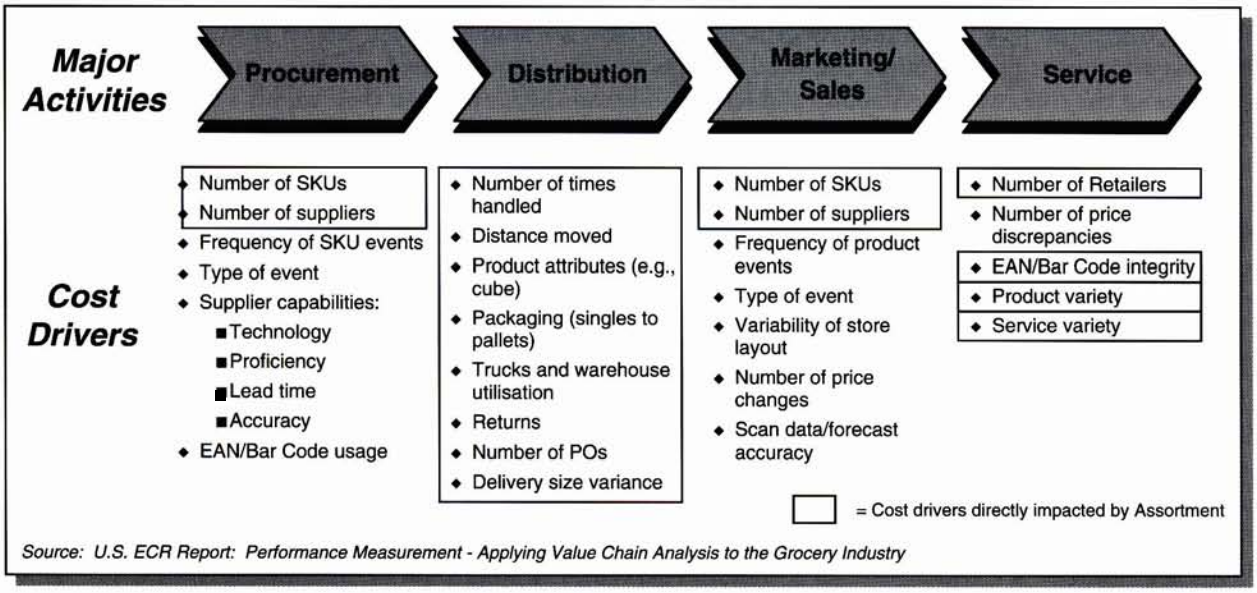


Courtesy of The Partnering Group, Inc.

While there are many ways in which trading partners may measure financial results and productivity, the application of ECR principles recommends the use of activity based costing (ABC) to determine the "true" costs associated with managing (e.g., stocking, replenishing, maintaining) individual SKUs, brands and categories.

The chart below indicates that assortment decisions impact the operating costs throughout a retailer's value chain.

Retail Chain Activities and Cost Drivers



Source: U.S. ECR Report: Performance Measurement - Applying Value Chain Analysis to the Grocery Industry

Most practitioners recognise that the managing of SKUs creates operating costs. The opportunity for most suppliers and, retailers in particular, is to understand the specific operating costs associated with managing the SKUs within each category.

The chart below illustrates how one retailer applied activity-based costing to determine the "true" profitability of each SKU within the category. Because the category had a high level of product diversity (e.g., turnover, size/cube, handling, supplier, etc.) the gross profit, when viewed in isolation, distorted each SKU's "true" profitability.

SKU Profitability

(before and after Activity Based Costing)

	SKU "A"	SKU "B"	SKU "C"	SKU "D"	SKU "E"
Gross Profit	32%	22%	31%	20%	17%
Net Profit (with ABC)	4%	-1%	-1%	7%	6%

Courtesy of The Partnering Group, Inc.

The more accurate profit data enabled the retailer to make more informed, and, ultimately, better assortment decisions.

Experience has shown that practitioners rarely have all the data sets mentioned. The six-step process suggests several data sets so that practitioners may use what is available to drive the process. Most importantly, even with limited data, the use of the six-step process provides a disciplined methodology for making improved assortment decisions.

CHAPTER 5: FINDINGS/LEARNINGS

In actual practice, the Best Practices Efficient Assortment process described in this report has produced a number of key findings. This information has been gained from efficient assortment pilots that have employed the six-step process.

Ingredients for Success

- Trading Partner Cooperation — This efficient assortment approach, like any ECR initiative, works best when supplier and retailer trading partners cooperate to increase consumer value. Each partner has unique data and consumer knowledge to optimise the assortment. Unless partners share their unique strengths, the optimum assortment will prove elusive and the consumer benefit will be suboptimal.

Efficient Assortment Capabilities

Supplier	Retailer
• Market Perspective	• Retail Perspective
• National Perspective	• Store-by-Store Perspective
• Consumer Data	• Financial Data
• Market Data	• Productivity Data
• Product Development	• Analytical
• Analytical	• Category Business Planning

Courtesy of The Partnering Group, Inc.

One issue among trading partners is the sharing of sensitive data (e.g., SKU profitability). Fortunately, the assortment process arrays the data in a comparative (indexed) versus absolute (actual, raw number) format. The chart below illustrates how SKU profitability indexes assist in the assortment process, yet avoid revealing sensitive information.

Segment	Turnover Index	Profit Index	Profit per Square Meter Index
SKU "A"	100	69	78
SKU "B"	125	111	105
SKU "C"	75	104	130
SKU "D"	83	110	90
Segment Average	100	100	100

Courtesy of The Partnering Group, Inc.

As a result, retailers and suppliers can work cooperatively on assortment while avoiding concerns related to sharing sensitive or proprietary data.

- **Category Definition/Segmentation** — Developing the proper category definition and segmentation (a fundamental step in Category Management) is exceptionally important to efficient assortment. Early experience teaches that many practitioners have difficulty with this basic step. Supplier organisations often disagree internally about category definition and segmentation and especially about the relationship of segments (category structure). One of the virtues of this assortment model is that its foundation rests upon alignment around category segmentation from the consumer's perspective.

- **Category Role & Strategies** — This assortment model works best within the context of a Category Management process that is embodied in the ECR Europe Category Management Best Practices Report. In the final analysis, assortment is merely one tactic in the broad Category Management process. Every step in the process holds some assortment implications. If these implications are ignored, the success of the final assortment will suffer to some degree.

- **Organisational Capabilities** — One of the fundamental premises of this report is that efficient assortment involves a retailer and its suppliers co-managing category assortments to better meet complex consumer demands for superior value.

The joint management of co-created assortments is typically new work for both trading partners. It calls for different organisational skills and interconnections than the conventional "buying and selling" of the past. Assortment, like broader Category Management, has proven to be a difficult undertaking to launch from conventional organisational platforms.

Assortment Roles & Responsibilities

Assortment roles and responsibilities are determined by trading partners. For the purposes of clarity and definition, however, the following distinctions are generally made for the roles of the retailer and its suppliers in planning and implementing assortment.

- The retailer is typically the "category (and assortment) manager," as the store is where categories and assortments are managed. The site of the retailer is where all the components of the category assortment come together for decisions.

- Suppliers are typically category (and assortment) consultants/partners to the retailer – i.e., those who supply important information and experience but are not the final decision makers on how the particular category assortment will be managed, or how it will fit into the broader mix of alternative category assortments.

The role of the category manager within a retailer organisation – or that of category consultant/partner within a supplier organisation – encompasses and expands upon the responsibilities of the traditional buyer/merchandiser and account executive role.

The category manager's (and category consultant partner's) key role is the ownership of the efficient assortment process for the portfolio of designated categories. This implies not only responsibility across categories but also for ensuring the appropriate linkage exists between category and corporate/departmental strategies. It also implies significant responsibility for the coordination of activities that flow across traditional functional boundaries within the retailer and its supplier organisations. For example, interaction with product development managers will often occur when the category manager or supplier identifies a new product opportunity within the assortment.

The supplier category consultant/partner is charged with meeting company, category and brand/SKU strategies and objectives through the co-development of the assortment with a retailer's category manager. Objectives for the supplier consultant/partners encompass the traditional focus on turnover and costs, plus the broader considerations such as product distribution, product line profitability, share within the retailer, product flow and service elements.

Assortment Skills

The multifunctional process-oriented nature of assortment results in an expansion of the role and responsibility of the category manager or category consultant/partner. This often necessitates a retailer and its suppliers giving serious consideration to the skill requirements essential for effective efficient assortment, the most important of which are listed below.

- **Strategy development skill** is the ability to take a strategic perspective when planning actions and making decisions. This manifests itself in being able to develop category assortments that are consistent with and reinforce the overall strategic direction of the company. The assortments should also reflect a clear understanding of the target consumer market and how to meet consumer demands, taking into account strengths and weaknesses vs. competition at the category level.

- **Consumer/retail marketing skill** is the ability to understand and apply the principles of marketing to category assortments that are dependent on understanding and meeting consumer shopping needs. This skill requires a clear understanding of consumer trends in the category. It also calls for keen insight into the segmentation of target markets and how to reach these targets through product assortment.

- **Financial management skill** is the ability to understand basic financial measures. The concept of asset management – what assets are, and how their productivity is measured, e.g., GMROI, ROA, ROI, etc. – needs to be understood by Category Management partners. The supply-side component of Category Management necessitates a working knowledge of supply chain costs and is increasingly leading toward activity based costing (ABC) solutions.

- **Information management/information technology skill** involves both the data gathering and data analysis components of the efficient assortment process. It requires the ability to identify quickly and accurately opportunities or problems from data through a process of disciplined analysis. It includes a working knowledge of where to find the information needed – within the company or from outside sources – and of the technology available to access and analyse data.

Relationship management includes the skills required in managing the cooperative external retailer/supplier relationship and internal cross-functional relationships in such a way that business dealings are perceived by all parties to be based on providing improved consumer value. This contrasts with the more traditional adversarial relationship between buyer and seller, which is a major impediment to efficient assortment.

Multifunctional Category Management Support

Efficient assortment will have impact beyond the category manager and his or her supplier consultant/partner. The entire organisation needs to be equipped, aligned and prepared for the impact of this practice. This impact is best communicated in terms of the relevance of efficient assortment in achieving overall corporate objectives. It helps to make it clear that previously self-contained functional units within the organisation will be called upon to support the efficient assortment process. In fact, the activities performed within these functional units are often vital to the process of providing value to customers and consumers. This usually necessitates a broad-based understanding of efficient assortment and business process improvement techniques throughout both retailer and its supplier organisations.

- **Consumer, Market, Financial Data** — This approach will yield the optimal result if all data sets are available. However, the six-step process of efficient assortment management has been applied with many data sets missing and still yields excellent results, partly because the process helps practitioners use available data to the maximum effect. Practitioners should not let the absence of perfect data deter them from applying the six-step process.

- **Information Systems** — Efficient assortment is fundamentally a data-driven, fact-based, analysis-driven business process. Information systems plays an integral role in enabling the necessary reporting, decision making and communication between and within cooperating trading partners.

  Given the amount of data utilised in the assortment process by both retailers and suppliers, the role of information systems includes the assurance of timely and accurate data acquisition, organisation and analysis, plus the conversion of data to actionable information. As a result, common data definitions and standards become a minimum requirement for success.

  A variety of information systems applications exist and are currently in use facilitating various aspects of efficient assortment. Some of these are business building applications including decision support systems and store/shelf management software. While each retailer and supplier must determine the cost/benefit for information systems within their unique circumstance, appropriate data and hardware/software solutions are important to building an efficient assortment capability. Importantly, emerging technologies and data sources promise to lead – rather than restrict – efficient assortment practices in the future.

- **Execution Excellence** — Efficient and accurate execution is critical to the success of any category assortment. Retailers and suppliers should develop an assortment implementation plan to insure that the desired assortment is accurately and cost-effectively implemented throughout the retailer's stores. The following chart depicts a format many retailers and suppliers have used to develop a thorough assortment implementation plan.

Assortment Implementation Chart

		Activity	Timing	Responsibility
1	Shelf Plan-O-Gram (POG) Development			
2	Assortment/POG Approval & Supplier Notification			
3	Product (Deleted) Disposition			
4	New SKU Set-Up			
5	Retail Store Notification & Implementation			
6	Retail Compliance Review			
7	New SKU Research and Development			
8	New SKU Marketing Plan			

Courtesy of The Partnering Group, Inc.

There are eight major activities that should be incorporated into any assortment implementation plan and typically occur in the following order:

1. Shelf Plan-O-Gram (POG) Development. The retailer and the supplier partner need to place the final assortment within the allocated retail space for the category. A new assortment should trigger an evaluation of the category's overall space, arrangement, etc. by the retailer and the supplier partner. Several POGs may be necessary to reflect any regional or store-by-store assortments.

2. Assortment/POG Approval & Supplier Notification. The retailer should gain management approval for the new assortment(s) and plan-o-gram(s). It is important to gain senior management support across several functions/departments to insure that the assortment will be implemented successfully. In addition, it is important for the retailer to communicate the assortment and plan-o-gram changes to the category suppliers. Retailers are more likely to secure supplier implementation support when they meet with the supplier and substantiate the assortment and plan-o-gram changes. In many cases, some of the material shared with senior management to gain approval may also be useful to share with the category suppliers.

3. Product (Deleted) Disposition. The retailer and supplier need to develop the terms and conditions by which the deleted product is disposed at retail and/or in the warehouse or distribution center. In some cases, this step may require significant lead time in order to move through low turnover products in a productive and profitable manner for both the retailer and the supplier.

4. New SKU Set-Up. The retailer will need to get the appropriate product information in order to set up any new SKUs. In addition, the retailer will need to determine the introductory and regular retail pricing, develop shelf tags and determine the purchasing parameters.

5. Retail Store Notification & Implementation. The retailer and category suppliers will need to notify their respective organisations of the assortment and plan-o-gram changes. The following should be communicated:

- Assortment changes (additions & deletions)
- Shelf plan-o-gram changes
- Product disposition plan
- Timing of receipt of new shelf tags
- Timing of receipt of new SKUs
- Timing of shelf resets
- Roles and responsibilities (retailer and supplier)
- Instructions for feedback (e.g., tell headquarters when the assortment/plan-o-gram has been implemented)

6. Retail Compliance Review. The retailer needs to select a target date that is suitable and reasonable for reviewing the assortment implementation. Usually, a good time to conduct an audit or survey is within three to four months after the stores have been notified. Some retailers will work with a supplier partner to conduct the retail compliance audit. Others will conduct it internally.

7. New SKU Research and Development. The more experienced assortment practitioners (retailers and suppliers) will identify new product opportunities within the assortment process. As a result, they will conduct a new product research and/or put together a product development plan to capitalise on the opportunity. The plan may include additional consumer research, setting up a test market, and so on. Importantly, this series of activities typically occurs after the existing assortment opportunities have been implemented (Steps 1-6).

8. New SKU Marketing Plan. The retailer and the appropriate supplier may need to develop a marketing plan (e.g., trial events, price promotions, etc.) for the new SKUs within the assortment. The marketing plan will help create consumer awareness, trial and, hopefully, product and retailer loyalty.

An assortment that has been implemented successfully typically has a well-documented implementation plan containing a thorough and properly sequenced set of activities with clear roles and responsibilities. Implementation accuracy, speed and efficiency are critical to achieving the benefits of assortment.

Considerations and Issues

- **Timing and Difficulty** — Like any new process, this efficient assortment process may appear somewhat daunting at first. Some "one-time" internal preparation work is generally necessary. But once that work is done, the actual process itself goes smoothly and quickly. Working together, supplier and retailer trading partners can move through an entire assortment of hundreds of SKUs in approximately one day (assuming the preparatory work has been completed). However, first-time practitioners typically find the process takes a few days to complete until they gain more experience. After practitioners have the initial experience of understanding factors unique to specific categories and markets, subsequent assortment efforts proceed even more rapidly. If this work occurs as part of a cooperative Category Business Planning process, the incremental time associated with this assortment activity is quite modest for suppliers and retailers alike.

- **Data Availability Issue** — All of the consumer data (e.g., loyalty, etc.) proposed for use in this model may not be available for all brands at the local market level with acceptable levels of statistical projectability. In some highly fragmented categories with low-household penetration, regional data, even national data, will have to replace the use of statistically shaky local market data. While the process recognises this issue, experience suggests that in most categories, the combination of regional or national consumer data with local market syndicated data and the retailer's own turnover and profit data has led to successful assortment decisions and is much more helpful than the limited data sets and decision processes currently in use.

- **Local/Small Brand Issue** — This is a subset of the data availability issue because statistically projectable data are not available for many small or local brands. Experience suggests judgments regarding these brands and SKUs can be more intelligently made by using the six-step process even though available data are not perfect.

- **Syndicated Data Aggregation Issue** — In some markets retailers and/or suppliers have requested that various SKUs (e.g., retail brand SKUs) turnover and share performance be disguised for competitive and confidential reasons. As a result, some SKUs will be combined with others and, therefore, cannot receive the comprehensive performance validation necessary to complete Steps 2-4 in the assortment process. The degree to which this will occur will vary by market and category. Fortunately, most of the measures required to evaluate a SKU, such as the consumer, financial and productivity measures will be available. In addition, retailers and suppliers often work with the syndicated data companies to determine what products are in the aggregated grouping (e.g., "All Others") and in some cases, with retailer or supplier permission, receive the aggregated SKUs' specific market performances.

- **"Black Box Approach" vs. Market Knowledge/Judgment Issue** — The approach and data sources suggested in this report are not meant as substitutes for local market knowledge or the judgment of the individual merchant. Quite the contrary. This approach works best when applied by merchants who know their market. Like any tool, this assortment process works best in the hands of skilled and experienced practitioners.

- **Data Cost Issue** — Generally speaking, this assortment process does require the purchase of incremental data, most typically, household panel data. In many cases, the data required represents a one-time investment with broad application to virtually all retailers within a particular market. Repeatedly purchasing similar data on a market-by-market basis could become very expensive. Therefore, practitioners are urged to review their data needs carefully and develop an information strategy which maximises data utility and minimises cost.

- **Objectivity Issue** — Many practitioners are surprised at the various findings produced by the assortment process. Sometimes a fact-based, consumer-oriented assortment decision may not initially seem to be in the best interest of the retailer or cooperating supplier. However, experience suggests that evaluating the assortment opportunity objectively will produce better results in the long run. If the data in a particular instance does not make a compelling case for action (e.g., delete or add to the assortment); or seems to be too radical a change, a properly-designed test is the typical next step.

- **Shelf Space Issue** — The biggest constraint on an "optimal" assortment is shelf space availability. However, it is important that the practitioners determine the "optimal" assortment before considering the shelf space constraints. The purpose for this approach is twofold: 1) Practitioners need to have the ability to determine the "optimal" assortment based on consumer needs, marketplace conditions, etc. versus a "sub-optimal" assortment based on a pre-defined SKU limitation due to space availability; 2) Practitioners need to determine the opportunity costs and trade-offs between the "optimal" assortment that may require more space and a "sub-optimal" assortment that works within an allotted space. This will insure that practitioners are constantly evaluating retail space opportunities and adjusting space in a consumer-oriented, fact-based manner ultimately leading to improved business results.

Capabilities

- **Companywide, Regional, and Store-by-Store Assortment**— The six-step process (along with the appropriate data) can be applied on a companywide, cluster and/or store-by-store level. Key drivers for more localised (or micro-marketing based) assortments include retail competition, widely varying consumer demographics and differing store formats. Importantly, the retailer and supplier typically deploy more local (vs. companywide) assortments when using this process because of the greater insights into consumer and market differences it produces.

- **Seasonal Assortment** — The efficient assortment process should be completed on a regional (annually, with quarterly reviews) and timely basis. For seasonal categories, the efficient assortment process should be completed before each key season. For example, the ice cream category may have a Summer and Winter assortment thus the assortment process should be completed prior to the start of these two seasons. Fortunately, the six-step process and data all have the flexibility to accommodate seasonal and periodic assortment evaluations.

- **Broad Applicability** — Like Category Management, this assortment optimisation model is applicable to virtually any category. While this approach will work better in data-rich categories, its discipline can also benefit categories with meager data. Certainly, the discipline of developing a category definition and structure, of arraying all available products into their appropriate place in the structure and then applying the process described herein is a logical and productive way to approach any category, even those with little data (e.g., perishable categories).

Outcomes

- **Assortment Variation** — The assortment process is designed to permit a unique assortment for every retailer. Efficient assortments will vary dramatically based on the unique nature of individual categories, the role chosen by the retailer and supplier, the target consumer of the retailer, the performance measurement objectives for the category, business trends and strategies chosen for category segments. As a result, retailers and their supplier partners in the same market looking at the same category almost always will have different "efficient assortments" because of variations in the factors mentioned above.

- **Deletions and Additions** — The popular belief that "assortment optimisation means SKU deletions only" does not appear to be correct. Experience indicates additions virtually always occur, although to date deletions have outnumbered additions so that a net reduction in category SKUs has occurred.

- **New Product Development** — This approach can help suppliers and retailers better understand consumer behavior and, thereby, lead to the development of new products, both branded and private label. Studying consumer data like brand loyalty, switching patterns, exclusivity of use, etc., can be extremely revealing and a powerful stimulus to both new product development and product improvement.

- **Supplier Share Changes** — The share changes among brands after the adoption of a new "efficient assortment" that are likely to occur, have been very positive on an overall category basis, but are not always readily predictable on a SKU-by-SKU basis. However, the dynamics of the six-step process interact with the idiosyncrasies of categories, markets, suppliers and retailers, producing overall positive results in virtually every situation.

CHAPTER 6: BENEFITS/CASE STUDIES

Benefits of Efficient Assortment

More efficient assortments benefit retailers, suppliers and consumers. These benefits are achieved relatively rapidly and inexpensively, and in a cooperative environment where trading partners seek a more efficient assortment process. Here are several case studies which illustrate the benefits practitioners are achieving from efficient assortments.

Case Study I: Health & Beauty Care Categories (Hair Care/Oral Care/Cosmetics)

Background: The supplier realised that the current category structures in three HBC categories lacked consumer-orientation and, as a result, were producing poor assortment decisions within the marketplace.

Approach: Recognising an assortment opportunity in these categories, the supplier took the following steps:

1. The supplier conducted a broad-based brand image study.
2. Multi-variant analyses were completed to find out the attributes that segment the market (e.g., that differentiate the brands) in each category.
3. The final segments were determined via a computer analysis using a statistical method.
4. Each brand was organised into the appropriate segments; the size of each segment within the marketplace was also identified.
5. The supplier adopted the efficient assortment process and acquired the necessary consumer and market data.
6. The supplier trained the organisation on the new category structure, assortment process and turnover consumer and market data.
7. Strategic retail customers were approached by the supplier with the efficient assortment process along with the new category structures and consumer and market data.

Results: The efficient assortment process produced extremely positive results within each category and also across a variety of retail channels. The following chart summarises the results.

Case Study: Health & Beauty Care Categories
(Assortment Results)

Retailer	Retail Channel	Category	Change in SKUs	Category Turnover* Improvement
"A"	Drug market	Hair Care	-28%	+12%
"B"	Hypermarket	Oral Care	-21%	+18%
"C"	Supermarket	Cosmetics	-14%	+8%

Courtesy of The Partnering Group, Inc.

* Category Turnover = Six Months versus Six Months A Year Ago

Case Study II:Savoury Snacks Category

Background: The category was growing in the market, particularly in some segments. The retailer's business was not growing as rapidly and, as a result, was losing market share.

Approach: The retailer and a supplier partner developed a comprehensive Category Business Plan following the ECR Europe Category Management Best Practices approach. As a result, the following was determined:

1. A new, consumer-oriented category structure was developed to reflect key emerging trends within the marketplace.
2. The category was assigned the "preferred" role which suggested a broader market coverage (80-85%) versus the current market coverage. Interestingly, the retailer had a low market coverage even though a large number of SKUs were being offered.
3. The category strategies focused on the category's heavy users, reducing out-of-stocks through implementation of a loyalty/consumption building strategy and a retail replenishment strategy. These strategies had two implications for the category assortment:
    a) the assortment needed to appeal to heavy category users, which meant larger sizes; and,
    b) the assortment needed to help reduce retail out-of-stocks which meant reducing the number of unproductive SKUs that were taking up the space needed for faster selling SKUs.

Results: The retailer added 14 new SKUs, appealing to the heavy category consumers; and deleted 62 SKUs that did not fare well during the deletion validation step of the efficient assortment process. Importantly, the retailer's overall category market coverage increased due to the new SKUs being significantly more productive in the marketplace versus the deleted SKUs. In addition, the new efficient assortment helped build the retailer's Savoury Snack business. These results are summarised in the following chart.

Case Study: Savoury Snacks Category

(Assortment Results)

	Market Coverage	Number Of SKUs	Turnover Increase	Profit Increase
Old	**82%**	**290**	**-**	**-**
New	**87%**	**242**	**+15.6 Million**	**+3.2 Million**
Change	**+6.1%**	**-17%**	**+10.1%**	**+11.2%**

Courtesy of The Partnering Group, Inc.

General Benefits

Efficient assortment case studies, including the two just described, have documented the following key benefits:

- Increased category turnover and profit. The efficient assortment process, when executed properly, typically delivers at least a 5% increase in category turnover and a category gross profit versus the same period a year ago. Keep in mind that the results will vary by category and retailer. In addition, the retailer supplier partner's results will vary more dramatically than the category results. Products with a strong consumer franchise (regardless of size) tend to fare quite well.

- Enhanced value to consumers; the right products for the shopping occasion, at the greatest efficiency.

  – Consumer-oriented decisions.

- Better alignment between target consumers, category roles, performance measurements and strategies.
  – "Strategic" (linked to category role/strategies) decisions.
  – Highlights SKUs that appear to be unproductive but may be important to the target consumer.
  – Decisions are quantifiable and can be reflected in the category performance measurement.

- A more efficient supply chain leading in the short term to higher financial returns and in the long term to a much more efficient manufacturing and logistics infrastructure.
  – Provides the ability to delete SKUs with minimal risk and minimal negative financial impact.
  – Insures meaningful, productive SKUs are added that build category turnover and profit.

In addition, an improved efficient assortment process can also produce other benefits for both retailers and suppliers.

Supplier Benefits

For suppliers, efficient assortment offers:

- A much deeper understanding of consumer dynamics in a category.

- A better understanding of strengths and weaknesses of all competitors in a category.

- Another perspective for developing new products, sizes, package types, etc.

- A keener appreciation of the financial dynamics of a category at the retail level (e.g., the importance of turns, retail inventory, etc.).

- A tool for improving new product deployment.

Retailer Benefits

For retailers, efficient assortment offers:

- A better understanding of consumer dynamics in the category for both branded and private-label products.
- A greater appreciation for concepts such as brand loyalty, exclusivity and substitutability and their implications for effective marketing.
- Increased ability to identify and meet the needs of different ethnic groups, target consumers and heavy consumers of the category, as well as various special consumer groups (e.g., senior citizens, etc.).
- Higher levels of consumer satisfaction from lower out-of-stocks and an inherently more cost-efficient distribution system.
- An enhanced ability to evaluate new product introductions and post-introductory results.
- A better foundation for other important tactical decisions on pricing, shelf presentation, promotion, and product supply.
- A better framework for implementing store-by-store micromarketing.
- The potential for a significant increase in both category turnover and profits.
- Almost always an increase in category productivity.
  - Increased stock turns
  - Reduced inventories
  - Increased turnover per square meter
  - Increased GMROI/ROA.

Supplier and retailer trading partners that have used the approach described in this report did not share specific results for competitive reasons. However, they have reported that the results are significant, both short and long term. Interestingly, the biggest issue has been how to broadly and quickly deploy this new capability.

The next chapter describes how this capability can be initiated and deployed

CHAPTER 7: GETTING STARTED

To build an efficient assortment capability, retailers and suppliers should consider a two-phase evolutionary deployment plan.

Phase I: Basic Efficient Assortment

Phase I uses the organisation's (supplier's or retailer's) current data, systems and people to improve the assortment in their respective categories. Importantly, Phase I deployment attempts to capture the "low-hanging fruit" benefits of efficient assortment, with limited additional resource investment from the practitioner (supplier or retailer).

In general, Phase I starts with a quick review of the available data. The next step is to gather and/or acquire the data necessary to complete the "basic" efficient assortment. Incorporate the six-step efficient assortment process into the current category management process and conduct a pilot to gain experience and learning. Finally, refine (if necessary) based on the learning from the pilot and provide training.

For retailers, all trading, merchandising, product development and marketing/marketing research functions should be considered for training. For suppliers, sales/account management, marketing/marketing research, product development and space management personnel should be trained.

The training should take approximately one day to properly cover the necessary material. What follows is an example of an assortment training agenda that has produced successful results - new knowledge and skills related to assortment.

Efficient Assortment Seminar
(One Day)

Objective & Agenda

Efficient Assortment Best Practices Overview
- **Background**
- **Definition: Four Components**

Component: Data Integration
- **Calculation**
- **Sources**

Component: Category Management Framework
- **Category Definition & Structure**
- **Category Role, Assessment, Performance Measures, Strategies**

Component: Business Process
- **Brief Overview**
- **Step I: Market Coverage**
  – ***Workshop***
- **Step II: Deletion Validation**
  – ***Workshop***
- **Step III: Retention Validation**
- **Step IV: Addition Validation**
- **Step V: Assortment Finalisation**
  – ***Workshop***
- **Step VI: Assortment Quantification**

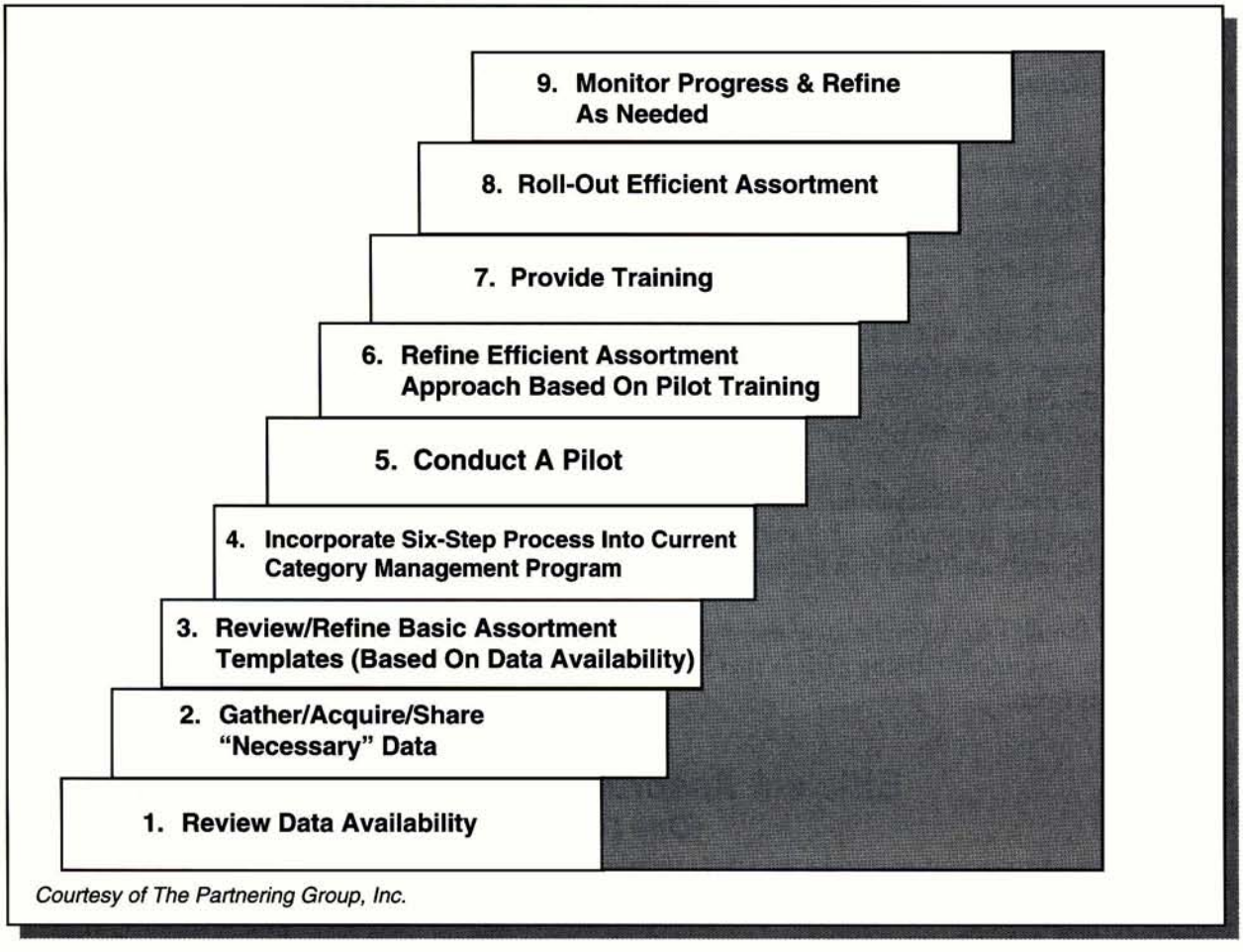
Deployment/Next Steps
- **Target Categories**
- **Timing**
- **Expectations**

Courtesy of The Partnering Group, Inc.

For the best results, the training should be developed and delivered by credible assortment experts. In addition, the training should be delivered in an interactive fashion that encourages audience participation. Finally, workshops should be included to enable the participants to actually practice the process in a business simulation.

The following chart provides a general deployment plan that applies to both retailers and suppliers interested in building a Best Practices level Efficient Assortment capability.

Phase I - Basic Efficient Assortment



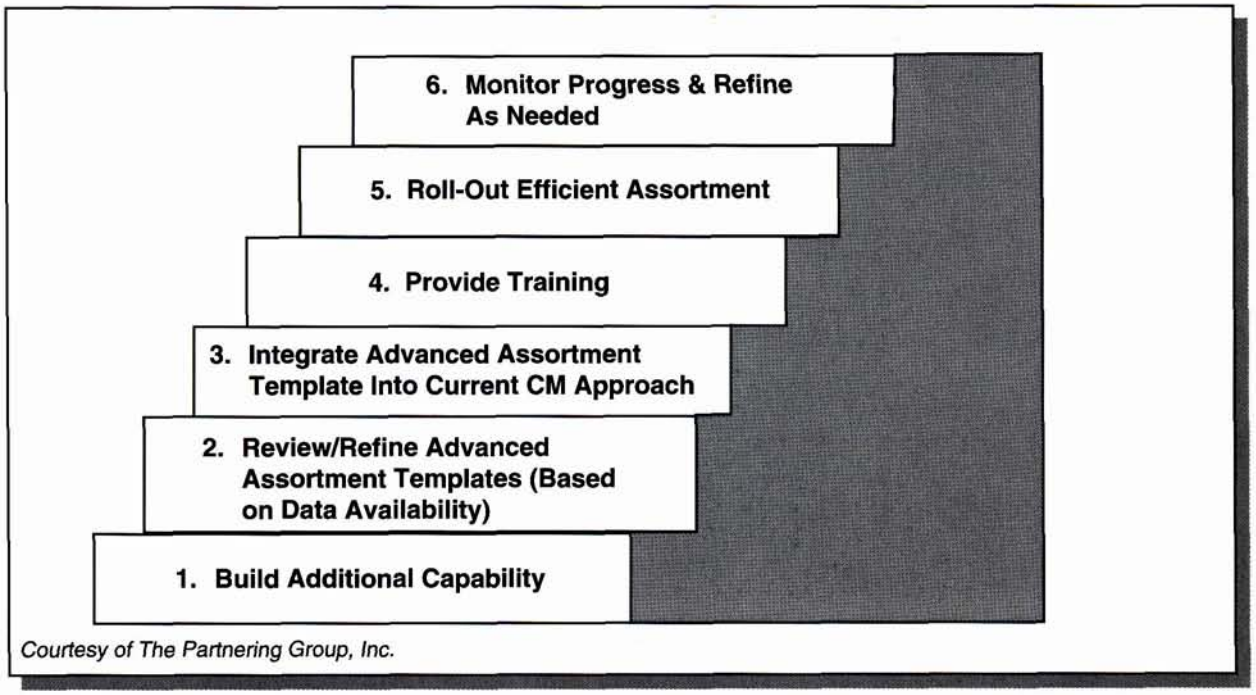
Phase II: Advanced Efficient Assortment

Phase II follows a similar path as Phase I, but with these key differences:

- Build additional data capability as a supplier (focusing on the consumer data) or as a retailer (focusing on the financial, e.g., ABC; and productivity, e.g., ROA data).
- Build an information systems capability to gather, store, manipulate and report the information for the organisation to make consumer-oriented, fact-based assortment decisions quickly and easily.
- Build organisation capability where needed. This may include redefining roles, recruiting new capabilities, developing a new organisation structure, etc.
- Use "advanced" efficient assortment templates that incorporate the newly acquired and/or developed data. Again, training is recommended to ensure a successful and productive efficient assortment roll-out.

The following chart presents the recommended sequence of steps in deploying a more advanced efficient assortment capability.

Phase II - Advanced Efficient Assortment: Deployment



Courtesy of The Partnering Group, Inc.

Conclusion

Efficient assortment is one of the four principal initiatives within the overall ECR Europe effort, along with efficient product introduction, efficient promotion and efficient replenishment. The proper mix of SKUs that best meets target consumer needs affects virtually every aspect of both the supply and the demand side. By definition, consumer needs are better satisfied when the right products are available at the lowest possible cost. Moreover, when assortments are optimised within the specific parameters of the category role/strategies provided by The Best Practice Category Management process, the entire business system can work faster, better and more efficiently.

CHAPTER 8: QUESTIONS & ANSWERS

1. **What is the role of local market knowledge in this process?**

   The approach and data suggested in this report are not meant to replace local market knowledge or the judgment of the individual trading partner. Quite the contrary. This approach works best when applied by individuals who know their market. Like any tool, this assortment process works best in the hands of a skilled and experienced practitioner.

2. **Can a retailer achieve an efficient assortment without the cooperation of a supplier?**

   Yes, but it can be difficult, because the supplier is generally the source for the consumer data that is necessary to attain an efficient assortment. Additionally, suppliers internal strategic objectives and plans for the category contribute to developing an efficient assortment. Third party providers of consumer and market data can also provide information to help retailers achieve efficient assortments.

3. **Are efficient assortments automatically biased toward big companies and big brands?**

   No. Efficient assortments are biased toward brands that have strong consumer franchises and legitimate "reasons for being" in the mind of consumers. Many smaller brands marketed by either large or small manufacturers often have extremely strong consumer ratings, which justify retaining or adding them as part of the assortments. The efficient assortment process enables these opportunities to be objectively identified.

4. **Does attaining an efficient assortment mean only deletion from the current assortment?**

   No. Retailers and suppliers often add items to a category in order to attain an assortment that efficiently delivers target consumer needs and is reflective of the marketplace opportunities. Various factors, such as the role for the category, business trends in the marketplace revealed by the assessment, the category performance measurement, category strategies, etc., can suggest the addition of items. In virtually all testing conducted to date, some items have been added to assortments at the same time that some were deleted.

5. **Is there one "efficient assortment" for a category?**

   No. Efficient assortments will vary from one retailer to another depending upon factors and judgments unique to the retailer. Because retailers have different target consumers, different roles for the same category, different market conditions, different performance measurements, etc., different retailers in the same marketplace may have different assortments they could legitimately claim to be "efficient" given their situation and requirements. As a result, the process described in this report will lead to more, not less, differentiation among retailers.

6. **How does efficient assortment relate to Category Management?**

   Assortment is one of the five tactics in the Category Management process (along with pricing, shelf presentation, promotion and product supply). Efficient assortment cannot and does not take place in a vacuum. Rather, it is best achieved within the context of a Category Management process. Each of the steps in a Category Management process that occur prior to tactic development has potentially significant implications for each tactic, including assortment.

7. **Does the process require the purchase of costly data for every category and every retail customer?**

As a general rule, this process is typically helped by the purchase of some data. The incremental cost will vary from retailer to retailer, supplier to supplier, category to category, and market to market. Testing will help retailers and suppliers understand the costs of the process. Once testing is conducted, suppliers and retailers should review their information strategies and data sourcing contracts so that costs can be minimised and that the most appropriate data are purchased.

8. **Can the efficient assortment process be applied to direct store delivered products?**

Yes. The process can be applied to any type or class of products for which adequate consumer and performance measurement data are available. Initial testing of the six-step process was successfully piloted within one of the largest store door delivered categories.

9. **Do practitioners need to have all the data sets mentioned in this report to develop a more efficient assortment?**

No. Experience has shown that practitioners rarely have all the data sets mentioned. The six-step process suggests several data sets so that practitioners may use what is available to drive the process. Most importantly, even with limited data, the use of the six-step process provides a disciplined methodology for making improved assortment decisions.

APPENDIX

EFFICIENT ASSORTMENT WORKSHEETS

THE PARTNERING GROUP

Step I: Market Coverage

Market: _____ **Time Period:** _____

Target Consumer Development

	% of Retailer's or Mkt Shoppers	% of Retailer's or Mkt Turnover	Segment Shopper Index			Segment Turnover Index		
			Segment "A"	Segment "B"	Segment "C"	Segment "A"	Segment "B"	Segment "C"
Target Consumer Income Profile/Class								
Target Consumer Age Profile								
Target Consumer HH Size Profile								

CHART DESCRIPTION

- **Target Consumer Profile (e.g., age, income, lifestyle):** The consumers, by profile, the Retailer is targeting for total store consumption and loyalty growth.
- **% of Retailer's (or Market) Shoppers:** The percent the target consumer profile comprises among all of the Retailer's shoppers.
- **% of Retailer's (or Market) Turnover:** The percent the target consumer profile comprises among all of the Retailer's turnover.
- **Segment Shopper Index:** The percent of the Retailer shoppers divided by the percent of the segment shoppers.
- **Segment Turnover Index:** The percent of the Retailer's turnover divided by the percent of the segment turnover.

PROCESS

- Determine the Retailer's target consumer by the appropriate profiles.
- Determine the total shoppers and turnover of each target consumer profile.
- Determine the shoppers and turnover of each segment by the various target consumer profiles.
- Determine if the Retailer's targeted consumer is a large part of the segment's shoppers or turnover. If so, that segment may warrant a higher market coverage.

Step I: Market Coverage

Time Period: _____

Segment Turnover and Profit Productivity

	Share (%) of Category Turnover	Average Turnover Per SKU*	Turnover Productivity Index	Average Profit Per SKU*	Profit Productivity Index
Segment "A"					
Segment "B"					
Segment "C"					
Category Average	**100%**		**N/A**		**N/A**

* Consider not including SKUs that are stocked in less than 25% of the retailer's stores (depends on category).

CHART DESCRIPTION

- **Share (%) of Category Turnover:** The segment turnover as a percent of the total category turnover.
- **Average Turnover/SKU:** The average turnover of each SKU in a given segment.
- **Turnover Productivity Index:** The segment's share of category turnover divided by the segment's share of category SKUs.
- **Average Profit /SKU:** The average Profit of each SKU in a given segment.
- **Profit Productivity Index:** The segment's share of category net profit divided by the segment's share of category SKUs.

PROCESS

- Use retailer's data (net profit is preferred to gross profit data)
- Identify high and low productivity indexes. Segments with low turnover and/or profit productivity indexes could warrant a lower market coverage than the segments with high tunrover and/or profit productivity indexes.

Step I: Market Coverage

Market: _____ **Time Period:** _____

Segment Fragmentation

	Minimum Number and Percentage of SKUs Required to Achieve Turnover (Market) Coverage													
	50%		75%		80%		85%		90%		95%		99%	
Market	# of SKUs	% of Segment SKUs	# of SKUs	% of Segment SKUs	# of SKUs	% of Segment SKUs	# of SKUs	% of Segment SKUs	# of SKUs	% of Segment SKUs	# of SKUs	% of Segment SKUs	# of SKUs	% of Segment SKUs
Segment "A"														
Segment "B"														
Segment "C"														
Category														

CHART DESCRIPTION

- **# of SKUs:** The minimum number of SKUs required to achieve a particular turnover or market coverage of a segment.
- **% of Segment SKUs:** The percent of the segment's SKUs required to achieve a particular turnover or market coverage of a segment.

PROCESS

- Use market data that represents the retailer's operating area.
- The chart should help identify segments with relatively high, medium, or low fragmentation. A high market coverage may be inappropriate for segments with high fragmentation.

Step I: Market Coverage

Market: _____ **Time Period:** _____

	Category			Segment "A"			Segment "B"		
	# of SKUs Offered	Market Coverage (SKUs Offered Share of Turnover in Market)	Mkt Share Index (Category Share/Total ACV Share)	# of SKUs Offered	Market Coverage (SKUs Offered Share of Turnover in Market)	Mkt Share Index (Category Share/Total ACV Share)	# of SKUs Offered	Market Coverage (SKUs Offered Share of Turnover in Market)	Mkt Share Index (Category Share/Total ACV Share)
Retailer*									
Competitor "A"*									
Competitor "B"*									
Competitor "C"*									
Local Market									

** Consider not including SKUs that are stocked in less than 25% of the retailer's stores (depends on category).*

*** Complete on a Country or Regional Basis*

Step I: Market Coverage

Market: _____

Assortment Tactogram

	Proposed Market Coverage	Current Market Coverage	Target Consumer Development			SKU Productivity		Fragmentation		Market Coverage		Growth Trends
			HH Income /Social Profile Index	HH Size Index	HH Age Index	Turnover Index	Profit Index	*Retailer (# of SKUs For 90% Coverage)	Market (# of SKUs For 90% Coverage)	Comp "A"	Comp "B"	Mkt Growth Index
Segment "A"												
Segment "B"												
Segment "C"												

** Optional depending on the influence of Own/Private Label*

Additional Things To Consider:
Retailer Assortment Strategy
Category Role
Assessment Findings

Step 2, 3, 4: Deletion, Retention & Addition Validation

Market: _____ **Time Period:** _____

Segment: _____

Segment Deletion, Retention and Addition Worksheet

		Product		Market				Retailer						Competition		Consumer				
Mkt Seg. Rank	Cum % Turn -over	EAN	Prod Descr.	Turn -ove r	ACV Weight- ed Dist.	Wtd. Rate of Sale	Wtd. Rate of Sale Index	Turn- over	ACV Wtd. Distr.	Cash Rate of Sale	Cash Rate of Sale Index	Profit Index	Turn -over Gain or Loss*	Avail "A"	Avail "B"	Loyalty Index	Cons Worth Index	Switch Index	Exclus -ivity Index	Action R,D,A
SKUs Ranked From Highest Value Turnover to Lowest Value Turnover																				

** Projected Turnover Gain or Loss based on assumptions which need to be clearly communicated*

CHART DESCRIPTION

- **SKU Description: A description of the SKU.**
- **EAN: The SKU's EAN number.**
- **Market Segment Turnover Ranking Numerical ranking of SKU within the segment based on turnover in the market.**
- **ACV Weighted Distribution: The percent of the annual value turnover (ACV or All Commodity Volume) represented by the stores where at least one unit of a particular SKU was sold.**
- **Market Weighted Rate of Sale: The SKU's average turnover per average sized store in the market.**
- **Market Weighted Rate of Sale Index: The SKU's average turnover per average sized store divided by the segment's average turnover per SKU per average sized store in the market.**
- **Retailer Weighted Rate of Sale: The SKU's average turnover per average sized store in the retailer.**
- **Retailer Weighted Rate of Sale Index: The SKU's average turnover per average sized store divided by the segment's average turnover per SKU per average sized store in the retailer.**
- **Loyalty Index = The share of annual requirements for the category accounted for by the brand (size , type, flavour, etc.) indexed against the average share of requirements satisfied by the average brand (size, type, flavour, etc.)**
- **Consumer Worth Index = The annual purchases of the category by purchasers of the brand (size, type, flavour, etc.) indexed against the average annual purchases of the category.**
- **Switching Index = The cumulative percent of users buying another brand (size, type, flavour, etc.) divided into the average cumulative percent of users buying other brands (sizes, types, flavour, etc.)**

Step 5: Assortment Finalisation

Segment: _____

Brand/Attribute Assortment Finalisation Matrix

Secondary Attribute : _____

	Attribute (e.g. Size: Small)	Attribute (e.g. Size: Med)	Attribute (e.g. Size: Large)	Attribute (e.g. Size: Ex. Large)	Total
Brand A	Retained	Retained	Retained	Added	# SKUs Current Proposed
Brand B				Added	# SKUs Current Proposed
Brand C	Retained	Retained	Retained	Deleted	# SKUs Current Proposed
Brand D		Retained	Deleted		# SKUs Current Proposed
Retail Brand	Retained	Added	Retained		# SKUs Current Proposed
Total	# SKUs Current Proposed	# SKUs Current Proposed	# SKUs Current Proposed	# SKUs Current Proposed	# SKUs Current Proposed

CHART DESCRIPTION

- Shows all SKUs presently stocked within segment.
- Arrays data by brand and key secondary characteristic (e.g. size, flavour, ingredient, etc.)
- Shows SKU marked for deletion with Deletion.
- Shows SKU marked for addition with Addition.
- Shows SKU marked for retention with Retention.
- Displays current and proposed SKUs in total.
- Displays current and proposed segment market coverage.

PROCESS

- Identify SKUs targeted for deletion, addition or retention in steps 2, 3 and 4 with a Deletion, Addition, or Retention.
- Compare the proposed to the current assortment by brand and key characteristics (size, flavour, ingredient, etc.)
- If an entire brand or key characteristic has been deleted, check all factors of deleted brand/ characteristic (loyalty, worth, etc.) to assess risk/ensure alternative.
- Check proposed assortment vs. market coverage target, role for category, strategy for segment, target consumer appeal.
- Check proposed assortment vs. key competitor's assortment.
- Prepare profile for deleted and added SKUs rationalising proposed action.

Step 6: Assortment Summary & Quantification

This assortment will deliver _____ in incremental turnover and _____ in incremental Profit.

	Market Coverage		# SKUs			Rationale (Why we will implement the particular segment assortment)
	Old	New	Deleted	Added	Retained	
Segment A						
Segment B						
Segment C						
Segment D						
Segment E						

Step 6: Assortment Summary & Quantification

Assortment Productivity Loss or Gain Worksheet

	Turnover	Profit	Inventory	Annual Turns	GMROI
Current					
New					
Change (%)					

CHART DESCRIPTION

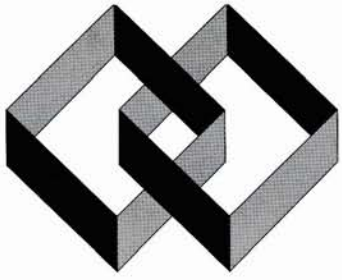
- Turnover Current = Current annual turnover.
- Turnover New = Estimated annual turnover.
- Profit Current = Annual gross profit from current assortment.
- Turnover Profit New = Annual estimated gross profit from new assortment.
- Inventory = Total system inventory in retail turnover value.
- Turns = Turnover/Inventory.
- GMROI = Annual gross profit/unit of inventory value.

PROCESS

- Use current data for turnover value, profit, inventory, etc.
- Assume turnover for new assortment increases by % of exclusive volume generated by new SKUs added.
- Increase profitability by adding profitability attributable to exclusive volume of new SKUs.
- Eliminate inventory of SKUs deleted, add inventory at average levels for new SKUs.
- Compute turns, GMROI.

ASSUMPTIONS/OBSERVATIONS

- Assumptions regarding incremental volume and turns based on conservative application of test norms.
- Changes in space/out-of-stocks can significantly enhance volume, profit and GMROI.



THE PARTNERING GROUP

EFFICIENT ASSORTMENT

BEST PRACTICES REPORT

To learn more about Efficient Assortment contact:

North America
The Partnering Group, Inc.
Frank Grossi, President
6125 Redbird Hollow Lane
Cincinnati, OH USA 45231
Phone: 513-271-8404
Fax: 513-271-8405

Europe
The Partnering Group, Inc.
Peter Leech, Partner
#3 Wyatt House, Cambridge Road
East Twickenham UK TWI 2TH
Phone: 44-181-395-0543
Fax: 44-181-395-0543

The Partnering Group, Inc.
Dr. Brian Harris, Chairman
7818 Veragua Drive
Playa del Rey, CA USA 90293
Phone: 310-823-7178
Fax: 310-823-7178

The Partnering Group, Inc.
John Dye, Managing Partner
400 Pike Street, 6th Floor
Cincinnati, OH USA 45202
Phone: 513-381-0093
Fax: 513-381-1364

ECR Europe
Efficient Consumer Response

AIM®

EAN INTERNATIONAL

EUROCOMMERCE

CIES
THE FOOD BUSINESS FORUM