AMOOBI

Space optimization, a key driver to boost category sales

Excelling in category reviews more important than ever

In 2021, coming out of the Covid-19 pandemic, growth was driven by increasing customer appetite for organic, healthy, local and plant-based alternative products. A year later, with high inflation and reduced consumer purchasing power, these segments are losing steam to the benefits of mainstream private label products.

In an increasingly volatile market, retailers need to adjust their category strategies more frequently to win over consumers and better serve their fast-changing needs. Building a robust and agile category review process is more critical than ever.

A good category review should deliver at least 3-5% sales lift, but too often, poorly planned and executed category reviews fail to achieve a positive sales and margin lift. From our experience, on average, one in four category reviews destroy value with negative sales development, and half have no to slightly positive impact (0-3% sales lift)—leaving only about 25% of category reviews achieving target performance. Besides the negative business impact (which can be felt for several years, as categories only go through major category reviews every two to three years), reviews that perform poorly take a toll on the organization and its scarce store and central resources, with labor hours put into unproductive shelf changes and rework. Direct cost associated with category reviews is estimated to represent more than $750 million annually for U.S. retailers (with an average cost of implementation/store/category reset of $5,000). The missed opportunity of possible unrealized revenue growth is much higher.

In this whitepaper, we would like to share our view on why so many category reviews fail, and what retailers and category managers can do to increase their chances of achieving successful reviews. In particular, we recognize that while category managers put a lot of focus on their assortment listing and delisting decisions, they often neglect the importance of having the right space and sequence allocation. We will share examples from our experience with retailers in order to demonstrate the power and impact that simultaneously optimizing assortment and space based on real (factual) customer journey insights can have on sales lift.

What are the main challenges when it comes to category review?

From our experience, there are four recurring challenges that prevent category managers from getting the most out of their category reviews: lack of time, too much art and not enough science in the decision process, barriers to accessing the right insights and not enough focus on optimizing space.

- **Lack of Time**

The most frequent problem we hear about is that category managers lack sufficient time overall, leaving them without enough time to complete the steps necessary for their category reviews: analyzing current performance and drivers, identifying and anticipating key customer trends and deciding on relevant changes to make based on impact.
Category managers have to manage too many "priorities," many of them revolving around managing operational and vendor-related issues which require immediate resolution, leaving them with limited time to focus on more distant but more impactful category strategies. The role of category manager is also one in which there is sometimes significant turnover, forcing category managers to take time to recreate the onboarding journeys for new joiners.
How can retailers ensure that category managers spend sufficient time on decisions that have a longer and stronger impact on the business? Merchant leaders have a role to play in ensuring that category managers appropriately balance their time between dealing with short-term operational issues and longer-term strategic decisions. There are multiple things that merchant leaders can do to assist, including organization setup and reserving weekly time slots which category managers can use to focus on long-term category projects.

- **Too much art, not enough science**

While we live in a world full of data where many category managers have access to a ton of insights, there is still a tendency to treat category management like more of an art than a science. Many category managers don't make enough use of analytical insights. More often than they should, they make decisions based on their feelings and/or vendor's incentives and recommendations, continuing to promote the products that sell today instead of anticipating what comes tomorrow. Experience shows that the best performance is achieved when category managers effectively combine their commercial acumen with market and customer insights from diverse sources. They tend to more proactively challenge the status quo and make bold moves, as the insights reduce perceived risks and help them to better appreciate the size of the different opportunities. Bringing more science to the decision process should help eliminate some basic mistakes and make the process faster.

- **Get access to the right insights**

For those embracing the value of customer- and fact-based decisions, it can be daunting to navigate a sea of insights. With vendor information, panels, consumer research, internal sales and market data and the Consumer Decision Tree (CDT), there are a growing number of insights available to category managers, but they are usually disparate and hard to integrate.

How can we make the lives of category managers easier in category review? By providing them with high-quality insights to help them make the best of their scarce time, allowing them to focus on drawing planograms and making bold, impactful decisions, versus losing time assembling the data themselves.

That data preparation and integration role can be better served by skilled data analysts in a merchant insight support function. It is the role of the merchandising services team to help category managers with all of their tasks by creating a coherent process based on the data available. With a clearly defined process, category managers can be more efficient and gain time by automating some of the data-gathering, which will help them make better decisions, faster.

- **Not enough focus on optimizing space**

During category reviews, category managers tend to focus on making assortment decisions (delist, reduce/expand distribution, list new items, etc.) while neglecting other key category performance factors, such as their price positioning, their promotion plan and, in particular, the space.

There are three main reasons why category managers focus on assortment optimization rather than space: there are more readily available tools to support assortment decisions, there is a lack of understanding of how space decisions affect assortment performance, and their mindset is too product-focused rather than customer-focused.

To make assortment decisions, category managers can usually rely on granular performance dashboards and decision tools based on the importance of each SKU for the customer (loyalty), the importance for the category (productivity, profit) and new products from the vendors.

To make space decisions, the toolkit available to category managers is often limited to the Consumer Decision Tree, which helps group products fulfilling similar needs based on affinity and substitution analyses. When it comes to determining how to sequence the different groups on the shelf, category managers are often left without objective insights to help them make decisions.

Category managers fail to recognize the importance of space decisions on both overall category and item-level performance. How many sales are lost due to top SKUs not having enough shelf space (stock holding power) to support peak demand on a Saturday? How many sales are lost because shoppers are not enticed to go through the entire category due to poor sequencing?

Optimizing space as important as optimizing assortment

What does it mean to include space management in category review?

Optimizing category space requires category managers to ask themselves a number of questions:

- **Product grouping** – Which products should be grouped together to facilitate an optimal shopping experience and trigger sales and/or substitution to optimize margin?
- **Adjacencies** – How should product groups flow in order to provide the right navigation and opportunities for upselling with complementary products being co-located?
- **Positioning on the shelf** - How much does the vertical spacing and position impact engagement within a given sub-category?
- **Space allocation to groups & individual products** – How much space should be allocated to ensure high on-shelf availability for current and future demand?
- **Signage** – What signage on and above the shelf will drive effective customer engagement?

These questions require category managers to understand how shoppers behave in front of their category, measuring where they go, how much they compare different products and where they spend too much time without converting. This must be done for each segment of the category. The process of asking these questions leads category managers to arrive at a better understanding of destination segments, over- and under-utilized segments, opportunities to expand/reduce space and the role of end caps and signage in driving traffic.

The way we organize the space in a category has a big impact on the conversion rates of each of its segments. Within a category, the average conversion rate varies from a low 10% in non-food categories to approximately 70% in the highest destination food categories.

In our experience, if done well, optimizing both space and assortment simultaneously can add up to 15% to the category sales performance through a combination of enhanced traffic in the category and improved conversion. Improvements from conversion come from helping the customer more easily find their desired products and creating more upsell opportunities, thanks to the right adjacencies.

How to effectively optimize space during category review

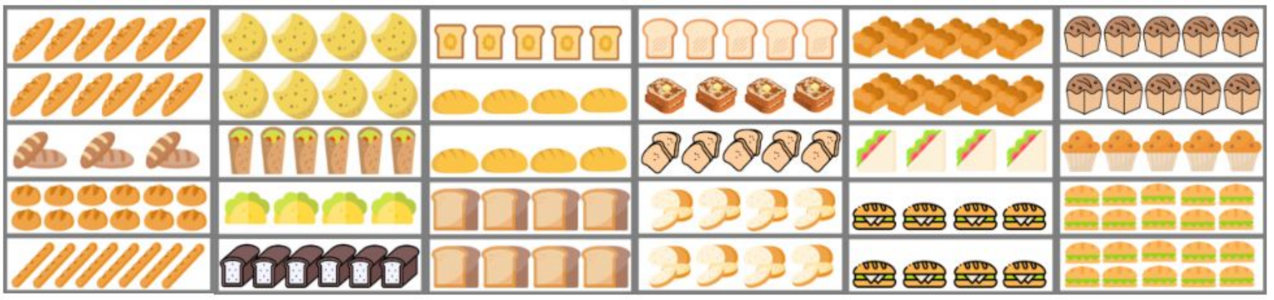
A category review usually starts with an initial assessment of the key performance drivers in order to identify the main challenges and opportunities. Beyond the traditional detailed analysis of sales/margin performance for each SKU and analyzing what products are substitutes to create groups by product needs, reviewing in-store customer behavior also enhances the category manager's understanding of performance levers. These measures include:

Traffic – the number of store shoppers visiting a given category.
Time pressure in the category – the time shoppers are spending in a category and how fast they make a decision.
Destination in a category - the segment that attracts a large quantity of shoppers who stop only in this part of the category.
Browsing in a category - the segments that are cross-shopped when making a decision.
Conversion – the percentage of shoppers visiting in a segment who buy at least one product.

Based on these key metrics, category managers can identify space levers to increase the category performance by better adjusting to the shoppers needs and behaviors.

Let's take an example of some of the work we've done at Amoobi. One of our clients was in the process of reviewing a pre-packed bread category. The category was composed of six space modules.

To complement the assortment review, we provided a diagnostic of the customer behavior in front of the category.



Bake-off   Wraps/ Organic   Toasts/Bread   Sandwiches/Brioches

Figure 1: Planogram of the pre-packed bakery category before the category review

Monitoring customer behavior in front of this category with Amoobi technology highlighted a few key behavioral insights:

- The Sandwiches/Brioches segment was a destination with a lot of traffic, a high conversion rate and a lot of shoppers only visiting this segment (and not the rest of the category). This created less browsing and engagement in the rest of the category, which was potentially detrimental to its overall performance.
- The left Toast/Bread segment (No. 3) had the lowest conversion and stopping rate, suggesting that the space allocated for these products was too large.
- The first two segments (Bake-Off and Wraps/Organic) had strong engagement with an above average stopping rate, but were not seeing enough traffic, as they were at the opposite end of the main destination of the category (Sandwich/Brioches).
- We measured a high tendency of shoppers to stop in both the Bake-Off (No. 1) and the left Toasts/Bread segment (No. 3), showing a joint shopper interest between those two segments despite not being frequently purchased together. This shows that those segments are potential substitutes for one another.

Taking these insights into account, the category manager made following changes to the planogram:

- Relocation of the destination category, Sandwiches/Brioches (No. 5 and No. 6), to the center of the category, in order to drive more traffic throughout the category and encourage browsing of adjacent sub-segments to increase conversion and basket size.
- Reducing space for Toasts/Breads (No. 3 and No. 4) and creating space for innovations in the category while improving the performance of sub-segment No. 3.
- Moving the Bake-Off and Wraps/Organic sub-segments closer to the destination segment. Bake-Off and Wraps were experiencing a strong stopping rate despite being in a lower traffic area. Moving those segments closer to the leader of the category aimed to improve the visibility of Bake-Off and Wraps/Organic with the hope of increasing conversion.

Combining assortment and space performance insights with an actual understanding of shopper behavior in front of the shelves gave the category manager the confidence to make bolder and better-informed changes to the category assortment and space. The new category layout (below) resulted in +15% sales lift.

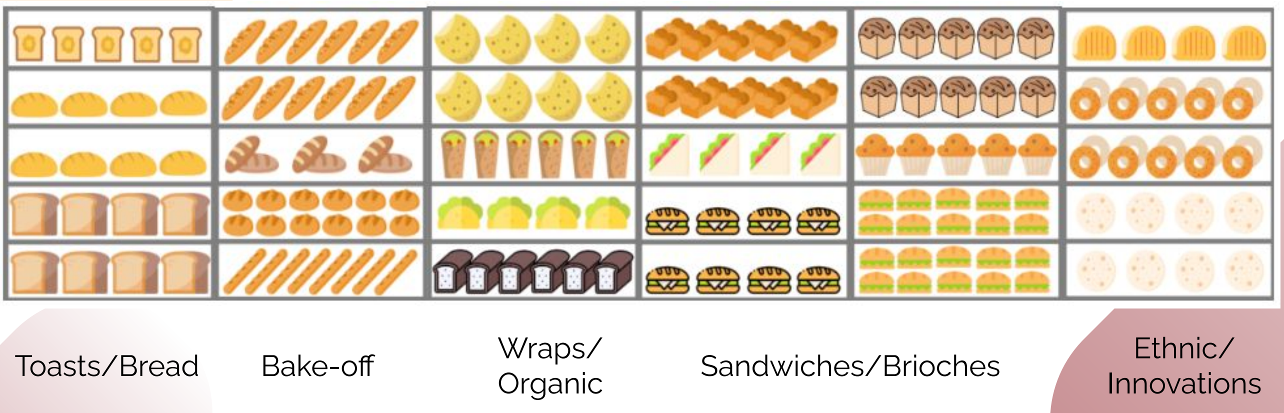


Figure 2: New planogram implemented as part of the category review

In stores equipped with Amoobi technology, we measured underlying changes in customer behaviors that drove significant sales performance improvement:

- The traffic in the category remained completely stable (less than 1% variation).
- The relocation of the Sandwiches/Brioches to the middle didn't change the traffic to this segment specifically, but it increased the traffic in the close-by Wraps and Bake-Off sub-categories by +40%. At total category level, we measured:
  - Considering rate (shoppers spending a minimum of 20 seconds) increased by 11%.
  - Conversion rate increased by four percentage points, going from 47% to 51%.
- The reduced segment, Toasts/Bread, maintained the same performance (flat conversion and slightly lower traffic) but this was expected considering it was condensed from two elements to one element.
- The sub-segments Bake-Off and Wraps/Organic that were brought closer to the destination categories (Sandwiches/Brioches) saw increased traffic (+40%) with maintained engagement level, leading to +23% sales for this segment.

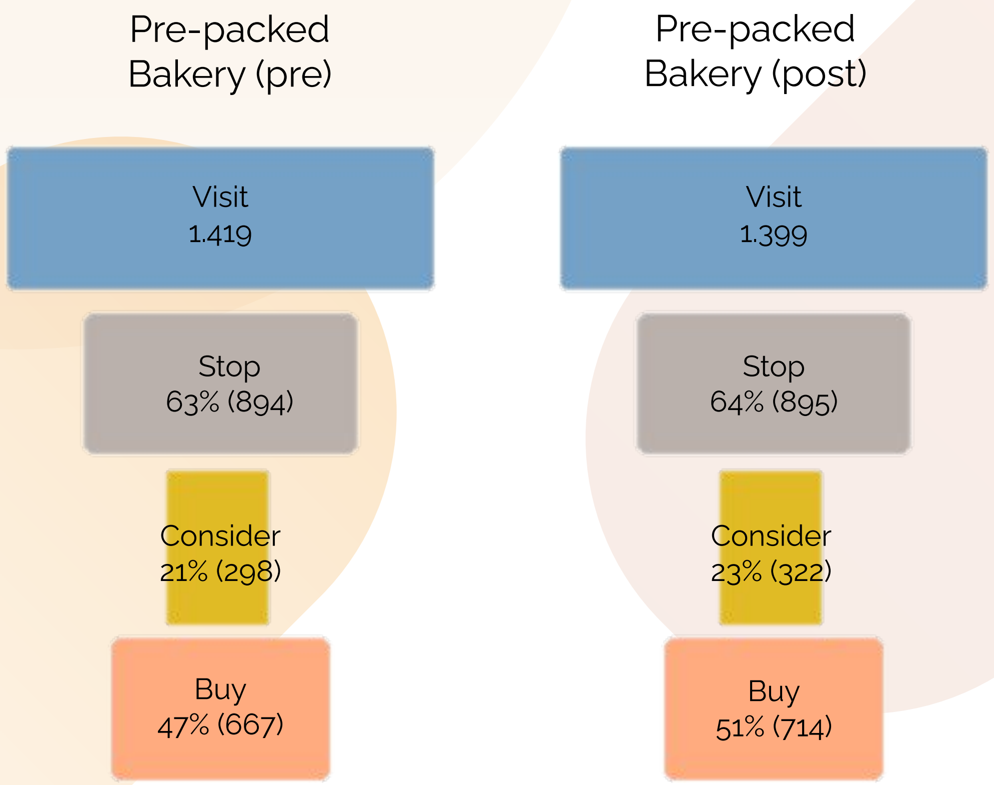


Figure 3: Comparison of the full conversion funnel pre and post category layout change

TAKEAWAY ON HOW TO IMPROVE YOUR CATEGORY REVIEW

Ultimately, every retailer needs to build a robust end-to-end process supported by readily available insights that can be effectively used by category managers to make best decisions for both assortment and space. A systematic post mortem review based on an enhanced set of KPIs (not only lagging but also leading ones) is also crucial to understand why certain changes should be made and how they affect overall performance. The responsibility of merchant leaders is to free up enough time for category managers during critical category reviews to ensure a sufficient amount of analyses, thinking and testing. This is what will separate the leaders from the laggards, resulting in overall higher performance and a better, easier shopping experience.

To perform a good category review, it takes time, insights and courage:
Time to analyze category performance, think about implications and identify changes that will lead to a stronger improvement of the category performance.
Insights to understand what is driving category performance at the point of sales, i.e. how customer behavior in front of the shelf drives product/sub-segment and category performance.
Courage to challenge the status-quo and make bolder decisions on both assortment and space allocation. In some cases, confidence in drastic changes can be built through pilot store tests before the changes are rolled out to all stores.

When done well, retailers can reduce the risk of under-performing category reviews. Ultimately, combining assortment and space optimization with the right customer insights leads to superior (+5% up to +15%) sales lift performance.

About the Authors

Benoit Nachtergaele *is a global retail expert and independent consultant. He was previously the Senior Vice President of Merchandise Operations & Replenishment at Walmart Canada. Benoit has also been a Principal at Kearney in EMEA and Australia, acting as a core member of their Consumer Goods and Retail practice.*

Olivier Delangre *is the CEO and co-founder of Amoobi. He pioneered the use of customer tracking data to help retailers improve in-store space performance. He has run Amoobi for over ten years and has worked with clients across the Fortune 500 on four different continents. He holds a PhD from both the University of Brussels (Belgium) and the University of Lille (France).*