Space optimization, the overlooked opportunity

In the highly competitive retail environment, effective category reviews are essential for merchandising success. A well-executed category review can drive sales growth of 3-5%, while poorly planned or executed reviews can actually damage sales. According to our research, one in four category reviews results in negative sales growth, while half have no or minimal impact. Only 25% of category reviews achieve their desired goals.

To perform a successful category review, merchandising teams need to focus on three key areas: assortment, pricing, and space planning. This involves carefully selecting the right products, setting competitive prices, and ensuring that products are strategically placed within the store to maximize visibility and drive sales. Space optimization is where Amoobi comes in!

During category reviews, Category Managers (CM) tend to focus on making assortment decisions (delist some products, 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. Our experience shows that around 30% of the performance of category review is due to proper space planning decisions.

Advantages of efficiently managing space allocation while reviewing a category

Optimizing category space requires category managers to ask him/her-self a number of questions that go beyond simply allocating space for each SKU.

- **Product grouping** – which products to group together to facilitate shopping experience, trigger sales and/or substitution to optimize margin?
- **Adjacencies** – what should be the flow of product groups to provide the right navigation and the opportunities for upselling with complementary products being co-located close to one another?
- **Positioning on the shelf** - how much is the vertical spacing and position impacting shopper engagement with a given sub-category?
- **Space allocation to groups & individual products** – how much space to allocate to ensure high on shelf availability for current and future demand?
- **Signage** – what signage on and above the shelf to drive effective customer engagement? What's the role of educational material or demonstration/testing?

This requires the CM to gain a deep understanding of shopper behavior within their specific category. This involves observing where shoppers direct their attention, the frequency with which they compare products, and any areas where they spend excessive time without making a purchase. Such insights are crucial for identifying high-traffic segments, underutilized areas that could be better utilized, and opportunities to expand or reduce product space. Additionally, the CM should analyze the effectiveness of end caps and signage in attracting shoppers to a dedicated area in the store and driving sales.

Why is there not more focus on space management today?

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 the category manager's mindset is more product-focused than customer-focused.

1. More readily available tools for assortment optimization

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 - and planograming tools that helps to allocate enough space to cope with the rate of sales and the rhythm of replenishment ensuring availability of the product.

When it comes to determining how to sequence the different groups on the shelf, how to organize the adjacencies, category managers and space planners are often left without objective insights to help them make decisions.

2. Lack of understanding of space planning impact

While selling 100 items from a specific bay indicates a successful outcome, it doesn't necessarily reveal the underlying shopper behavior driving those sales. It could be that only 200 shoppers were drawn to the bay but made purchases at a high conversion rate of 50%. Alternatively, it could be that 1000 shoppers were attracted to the bay but only 10% made purchases due to lower interest or other factors (poor pricing, etc). Both scenarios result in the same sales figure, but they represent very different customer experiences and product performance levels. Optimizing space allocation requires understanding both elements simultaneously to ensure that product placement and display effectively engage shoppers and drive sales.

3. Lack of understanding of space planning impact

The saying goes: you improve what you measure. While all retailers have a clear vision on their sales per product, they don't have great KPI for navigability of the aisle and how well they engage the shoppers based on their layout. Despite the fact that "being more customer centric" is high on the agenda of most retailers' management teams, organizations usually track KPIs that focus on product availability and product sales, leaving the customer on a second plan simply because it's very hard to measure customer experience consistently.

Time to get started

Amoobi's experience demonstrates that integrating behavioral insights into space optimization strategies can drive substantial sales growth. This approach necessitates a coordinated effort between category managers and space planners, with the guidance and commitment of senior merchandising leaders to maintain consistency and prioritize a revamped category review process.

About the Author

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).

Amoobi is a world leader in customer tracking technology. By using an innovative 3D sensor capability, we map the store floors of brick-and-mortar retailers and track unique, individual customer movements. We translate these movements into data so that retailers and brands can understand what their customers are doing on the store floor. Interested in taking your feature spaces and understanding of customer behavior to the next level? Reach out to Amoobi at info@amoobi.com to learn more.