Shrink to Grow
Create competitive advantage with assortment by using big data analytics and technology

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Agenda

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The market is competitive, more so than ever. Identifying and employing resources will allow fast moving consumer goods (FMCG) manufacturers and retailers to compete aggressively and successfully.

IRI Assortment Optimisation provides a solution set to drive immediate profits by helping users stay aligned with end customers and shoppers. This alignment creates huge competitive advantage.

Assortment growth is slowing down

While country economic situations vary across the globe, there is no unique, global, unified trend in assortment. Despite conventional wisdom, assortment trends reflect the personalities of distinct markets. Each market is characterised by demographics, cultural influences, language and more.

However, in analysis of mass market activities over a longer span of time in the past few years, some greater trends are evident. There have been several years of high assortment increase in many countries, albeit at different paces.

More recently in the past year, trends are shifting toward a reduction of the assortment growth or even an absolute decline in the number of SKUs.

This is not a universal move, but suggests a general trend.

Average number of items, % change, per week and per store, year on year

<table>
<thead>
<tr>
<th>Country</th>
<th>2013/12</th>
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<th>2015/14</th>
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<tbody>
<tr>
<td>Greece</td>
<td>7.5%</td>
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<td>Spain</td>
<td>3.1%</td>
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<tr>
<td>Germany</td>
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</tr>
<tr>
<td>UK</td>
<td>-1.1%</td>
<td>-0.3%</td>
<td>-3.5%</td>
</tr>
<tr>
<td>US</td>
<td>-1.6%</td>
<td>-2.3%</td>
<td></td>
</tr>
</tbody>
</table>

Source: IRI Infoscan™ (hypermarkets and supermarkets) for all countries except for the UK whose coverage is major multiples; for Germany drugstores are also included; for the US convenience stores are also included; for France hard discounters are also included.

AFTER SEVERAL YEARS OF ASSORTMENT INCREASE IN MOST COUNTRIES, MOST OF THE INCREASE RATES MOVE TOWARDS A REDUCTION OF THE ASSORTMENT IN THE LAST YEAR, OR EVEN A DECLINE.
Assortment growth is slowing down

US average number of items, % change, per week and per outlet, year on year

South African average number of items, % change, year on year per retailer

The recent slowdown is trending across channels and various countries.
Reduce assortment and drive growth

Eliminating SKUs does not necessarily translate to a negative impact. In fact, assortment trends do not seem to negatively correlate to revenue trends.

Overall, revenue trends show an increase in the last year, despite the declining number of products offered.

Still, arbitrarily decreasing assortment will certainly lead to disaster.

Retailers and manufacturers can reduce assortment and still grow sales if they closely monitor assortment with big data analytics and technology. The right assortment for the right market means happy, satisfied shoppers and thus, growth opportunities.

Optimise the shelf

With the objective to streamline assortment to best deliver for shoppers, FMCGs and retailers must develop an understanding of what satisfies – or upsets – shoppers.

What does not work:

- Limited shelf space in stores for liked brands;
- Cluttered shelves;
- A continuously growing offering.

Optimisation at the shelf means sharp focus on shoppers – using resources to deliver the right assortment.

No direct relationship between revenue sales and average number of items – Spain example

![Graph showing no direct relationship between revenue sales and average number of items in Spain.](image)
The retail industry is changing at a high pace of speed, bringing new trends to FMCGs and retailers who need to respond just as quickly.

Store and category assortment must be adapted to a wide variety of shoppers and shopping missions to be successful. And it must continue to evolve, keeping pace with the overall market and development within specific segments and categories. Shopper needs also vary greatly in terms of demographics, behaviour, perceptions of value, socio-economics and more.

Developing assortment within each shopper group’s constraints – to satisfy their needs and help them carry out their shopping missions – makes certain retail outlets appealing to certain shoppers.

A focused approach to assortment and optimisation has translated to new formats and channels. For example, Carrefour not only has its hypermarkets and supermarkets; but its convenience stores have different set ups depending on the local shoppers (i.e. Carrefour City, Carrefour Market, Carrefour Contact, Carrefour Express, etc.). New channels also are expanding, such as drive-through channels, various click-and-collect services, and multichannel retailing is becoming a must to follow consumers everywhere they go.

Further, online channels are growing as consumers continue to appreciate the ease of engagement and quick fulfilment e-commerce (and m-commerce) offer.

These factors all require the industry to quickly adjust to satisfy the needs of shoppers in order to succeed at the shelf and make profits at the bottom line.

The new assortment optimisation model captures the purchase decision based on product attractiveness, influenced by the type of shopping mission.
The 'global consumer' does not shop here

FMCG manufacturers may be global, and retailers may be regional, but consumers and shoppers are local. This isn’t just geography. There are also diverse needs within each group of local shoppers. Retailers must consider these needs - the mass-market approach does not work anymore. Shoppers like customisation and choices.

According to the total FMCG Shopperscan French database, a large choice and a clear offering are two of the key reasons shoppers choose to shop at a particular store. Other important factors include store location and price.

Specific to one market, French shoppers agree more and more over time that it is difficult to find items in stores, as there are too many on the shelves (from 21 percent in 2013 to 38 percent in 2015). However, at the same time, they do not want a dramatically reduced choice, as only 17 percent of respondents say that there are too many items on store shelves.

Analysis of these survey results would indicate that assortment decisions need to be looked at very strategically. Retailers should not reduce the assortment for the reduction itself, but reduce the assortment in a manner to maintain sufficient choices aligned with the market’s shopper needs.

For manufacturers and retailers, the key to grow revenue jointly is to adjust assortment in the most relevant way for local consumers, and even to shrink it!

“It is difficult to find products in the aisle due to the high number of products.”

21% 2013
27% 2014
38% 2015

% SHOPPERS IN AGREEMENT

But 83% of the shoppers do not agree the statement:

“There are too many items on the shelves!”

2% TOTALLY AGREE
15% AGREE
83% DO NOT AGREE

Source : IRI France - Total FMCG Shopperscan French database
What you need: big data + analytics + technology

In a retail era where assortment and optimisation are imperative for growth and success, traditional optimisation systems have become outdated and unscalable, unable to cope with the increasingly massive amount of data and not technically advanced enough to decode the differences between numerous consumer segments.

To better understand all products’ characteristics along with the consumer preferences and the retailers’ and manufacturers’ constraints, and to be able to optimise assortment, a powerful big data platform and superior analytics expertise is essential.

As an analytics and technology FMCG market measurement leader, IRI brings the science of assortment optimisation into the world of brand and portfolio planning. For the first time, users can easily assess how assortment performs and how it can be enhanced and optimised.

IRI Assortment Optimisation resources allows FMCGs to tailor assortment on a store-by-store basis, setting the groundwork for profitable execution in a constantly changing environment.

IRI has a unique and unmatched combination of predictive and prescriptive analytical techniques, proprietary rapid modeling platforms, leading-edge automated solutions, and experienced analytics consulting talent, supported by the best technology (with the IRI Liquid Data ecosystem). With this support, IRI’s globally recognised Analytics Centre of Excellence (ACE) has developed the IRI Assortment Optimisation solution. This solution provides great value through the necessary technology and knowledge to grow profits.

Further, it enables FMCG retailers and manufacturers to complete in minutes what used to take weeks of data sorting and manual reporting. The result is a dynamic perspective for the most accurate measurement, proven to help users build assortments that deliver profit.

The only solution that provides near-real time identification and assessment on any changes in product line-ups and with dynamic perspective.
Focus and rigor

FMCG manufacturers and manufacturers with a focused and rigorous approach to assortment stand to reap significant rewards.

1. Improve a category’s sales performance by optimising the assortment according to “local shopper” habits.

2. Use an incrementality-based approach focusing on meeting local assortment’s needs.

3. Look at the category as a dynamic product mix that works in unison to solve the diverse needs and wants of core and target shoppers.

Limitations are numerous, preventing the adaptation of new approaches

In today’s complex and highly individualised world, there is no “average shopper”. Trying to appeal to all greatly hampers efforts to maximally impact each shopper as a unique individual and can negatively impact shopper loyalty.

Further, only using revenue drivers to lead the selection process and to adjust the assortment on an adhoc basis isn’t comprehensive. Unfortunately, this remains the most frequent approach because it is the easiest to complete and teach or learn.

Finally, one of the most challenging aspects in any business is the necessary shift in mindset. The ability to look at assortment as a whole – and not as items in isolation – allows retailers to fully understand the real net interactions of a product mix. However, this is a complex idea that requires an organisation-wide shift in mindset.
Shrink to grow: winners and losers

Some key findings from our assortment optimisation projects show significant opportunities to achieve performance improvements. For example, win-win scenarios optimise a category by groups of stores, in a particular country or region. This allows for specific and directed demographic and geographic splits.

Further, category sales performance can achieve double-digit growth by optimising assortment according to local shopper habits.

With changing consumer needs and behaviours, retailers and manufacturers have to adapt offerings to satisfy not one universal market, but multiple assortment needs addressing unique market demands.

This translates day to day in the fact that the best assortment needs to be done at the local level. National level assortment would only smooth out critical differences and should hence not be the key reference any more. Without noting differences, retailers will not succeed in addressing shoppers’ desires for choice, albeit highly targeted choices that fit their general lifestyle.

Category revenue % change between optimised scenario and actual sales, across different regions/stores within each country

Notes on the scenarios: win/win constraints were set based on the following rules: keep retailer’s private labels, force products with high distribution in the perimeter, keep products from all price tiers. Retailers are different per country.

Win-win scenarios optimising a category vary within each country between groups of stores, which can either be retailers, regions or set of stores based on other demographic and geographical splits.
The IRI Assortment Optimisation solution enables easy and rapid understanding of:

- How the best assortment optimisation scenarios can result in drastically different results within a single country;
- The impact of splitting geographies/regions;
- The positive influence on retailers’ and manufacturers’ bottom lines.

Gains are usually positive for most store groups, but not necessarily at the same level.

With the appropriate solutions, FMCG manufacturers and retailers can grow, albeit often not all, and not all at the same level.

**Shrink to grow: winners and losers**

Brand revenue % change between optimised scenario and actual sales at the category level, across different regions/stores. Frozen fish in France example.

**OPTIMISING A CATEGORY VIA DIFFERENT BRAND SCENARIOS WILL BRING VARYING RESULTS ACROSS GEOGRAPHIES WITHIN EACH COUNTRY.**

Note: win/win constraints based on keeping retailer’s private labels, forcing products with high distribution in the perimeter, keeping products from all price tiers. Annual assessment.
Where retailers usually go wrong

Don’t miss significant category growth by disregarding an incrementality-based approach focused on meeting local assortment needs.

It is a common industry assumption that when you add one item in an assortment, you take sales from another. Thus, the total sales of the new item are usually sales transferred from other brands, along with new sales generated from the uniqueness of the product (if any!).

On top of this, satisfying each local assortment with the proper attribute set can significantly impact the category’s or brand’s performance, as the proper attribute set will increase the incrementality each item has and minimise their transferability.

Traditional optimisation approaches are often only based on volume. However, analytics prove that just delisting low-sales items should be avoided since that practice does not take into account the “transferability” (or on the opposite: the “incrementality”) factor for each product.

Optimising categories by removing items with the lowest percentage of incremental sales is a much more efficient solution than removing items with low volume sales.

The results shown below illustrate the power of IRI’s Assortment Optimisation application. Comparing the traditional low-performing sales delisting methods with a strategy that delists based on incrementality reveals clear results.

Evidently, revenue can – and will – increase even when shrinking assortment. **The key is to consider incrementality and transferability for each item in each set.**

Scenarios simulating a category’s revenue sales comparing old and new methods of items removal

![Graph showing revenue changes](image)

**Note:** % change in category revenue sales within each retailer, between the actual vs. simulated revenue. Removal of about 10% lowest performing items. Retailers are different per country.

**THIS EXAMPLE ALSO CLEARLY SHOWS THAT YOU CAN DEFINITELY SHRINK YOUR CATEGORY’S ASSORTMENT (HERE BY ABOUT 10% IN EACH CASE) AND STILL GROW YOUR REVENUE SALES IF YOU USE THE PROPER METHOD.**

To analyse incrementality and transferability, significant big data management capacity, superior analytic prowess and easy-to-use technology is required. IRI has all of these capabilities.
Categories are like consumers: dynamic and evolving

Significantly increase performance growth by looking at the category as a dynamic product mix instead of analysing products in isolation.

Shoppers typically find satisfaction in an assortment of products that easily allow them to identify the most suitable ones. Typically they do not only seek or relate to only one unique product.

As a result, focusing on items in isolation - rather than how they fit with the entire set - means lost opportunities and lost sales. Understanding product characteristics and the right mix on the shelf as a whole and building assortments based on stores whose shoppers behave similarly, will bring higher growth.

With too much focus on trying to find the best “saturation point” in terms of assortment or “the optimum number of items”, this assumes all items have a constant incremementality. And analytics show this certainly is not the case!

Saturation points will vary and will depend on the product mix at any point in time. Even products with low volume contribute and deliver on some shopper preferences, however, the key is maintaining variant customer options without over-assorting.

Using the IRI Assortment Optimisation application, the direct impact on how products are selected based on product characteristics can be observed in a scenario where about 15 percent of the category’s range would be removed, either:

- (Scenario 1) by removing an entire option for the consumer, such as all products from an entire size break - here 10-13 count (CT) size.
- (Scenario 2) by removing the same 15 percent of items but across several options, allowing the same customer selection options but in a lower range of products. For example, we keep all sizes, from 10-13CT, 15CT and 16-18CT.

The second scenario, where consumers can more easily switch from one item to another with all of their initial options still available, always brings more important gains than the first one, where choice is reduced.
Key learnings

1. Analyse different stores and regions in a separate way. Make sure you use as much geographical granularity as possible in your assortment optimisation studies, taking into account local preferences.

2. Always use a solution-based approach on consumer preferences (such as attributes). For enhanced growth via true incrementality and also transferability assessment, an attribute-based solution provides a more comprehensive result.

3. Implement solutions that treat transferability and incrementality of the items in a dynamic way. Each shelf set is different and will make each item have a different incrementality impact.

IRI Assortment Optimisation enables manufacturer and retailer users to have a strategic approach by easily and automatically integrating these three elements:

- Local need
- Incrementality-based approach
- Dynamic product mix approach

It opens the opportunity for the teams to dedicate more time to rethink the product mix with the proper resources and strategic tools on hand.
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6. Is there Variety in Duplicity? Assortment Optimization
For further information
Contact your IRI Consultant or send an email EU.Marketing@IRIworldwide.com

About IRI: IRI is a leader in delivering powerful market, consumer and media exposure information, predictive analytics and the foresight that leads to action. We go beyond the data to create growth for our clients in the FMCG, retail and over-the-counter health care industries by pinpointing what matters and illuminating how it can impact their businesses.

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