POINT OF VIEW

Merchandising Strategy: Optimize In-Store Performance for Growth With Metrics That Matter

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ABOUT THE AUTHORS

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ABOUT IRI STRATEGIC ANALYTICS

IRI Strategic Analytics drives competitively advantaged, shopper-centric business decisions for CPG and retail clients by leveraging predictive analytics and prescriptive solutions, powered by artificial intelligence and machine learning, in combination with deep strategy, analytics and activation expertise. It delivers growth to clients across these key areas:

Revenue Growth – Optimize your pricing and promotion decisions.

Marketing Effectiveness – Stretch your marketing ROI by targeting key shoppers with the most effective marketing mix.

In-Store Execution – Optimize assortment and space.

Demand Forecasting – Understand the future growth trajectory for brands and categories.

Growth Consulting – Define, prioritize and capture growth opportunities.

ABOUT IRI IN-STORE SOLUTIONS GROUP

IRI In-Store Solutions Group provides industry-leading in-store execution data uniformly collected by highly trained auditors, providing manufacturers with visibility and insight into shelf and display conditions across their representative bases of sample stores, projected to retailer and custom geographies. IRI collects in-store data in 5,000 stores weekly across 300-plus categories, providing a detailed understanding of shelf and display execution across the entire store. Importantly, CPG manufacturers gain a competitive advantage with the combination of ISG in-store data and IRI point-of-sale data because they can better understand the impact of key conditions. Understanding impact to action drives improved performance and execution, driven by IRI in-store insights.

Trade and Merchandising Account for 30–40 Percent of P&L Expenses, but In-Store ROI Is in Decline

With CPG manufacturers and traditional retailers under intense competitive pressure, the need for finely tuned, highly impactful in-store activities is more critical to lift and growth than ever. After first ensuring a firm pricing strategy is in place that makes sense and delivers, CPGs and retailers must then turn to the critical element of merchandising and develop an equally firm and strong program. Today's CPG marketplace relies heavily on in-store promotion to move volume, but there is pressure coming from multiple sources, with traditional retailers, e-commerce and nontraditional heavy-discount competition impacting top-line results. At the same time, diminishing response from merchandising vehicles–feature, display and temporary shelf-price discounts–are creating less efficient spending. All of these factors are impacting margins and trade program ROI intensely, both for the manufacturer and the retailer.

Manufacturers in particular are impacted as return on trade spend, in-store merchandising and supply chain resources decline. Accounting for 30-40 percent of a manufacturer's profit and loss statement (P&L), trade spend and variable and fixed selling expenses are significant. These figures typically far exceed spending on media, consumer and, in some cases, even raw materials.

Because the industry invests heavily on in-store, ensuring the activities happening across shelf and display are right is paramount. And understanding the key performance indicators (KPIs) that drive the most effective tactics and ensuring those tactics coincide with portfolio strategy are fundamental to making sure the building blocks of CPG growth work seamlessly together (see exhibit 1). Elevating merchandising strategy and combining it with strong branding and real innovation is the key to CPG growth.

All three drivers need to work together – and separately – and they need to be fueled by big data. But getting it right means understanding which metrics provide the right insights and power to move the needle. CPG retailers and manufacturers need to collaborate to put a keen focus on execution, in particular, as valuable resources are allocated to point-of-sale activities, and the hand-off point between strategy and execution is critical.

Too often it's unclear what "doing it right" really looks like; it typically doesn't mean to just copy last year's plan. Too often, retailers lack a validated ranking of in-store activity that adequately explains changes in volume and sales. It's imperative that in-store activities are directed to achieve maximum lift and follow well-conceived merchandising strategy, validated through in-store analytics. In short, it is vital to know what winning the store looks like for your portfolio and categories.

EXHIBIT 1

Real Innovation + Strong Branding + Retail Execution = Maximized Growth

Use Advanced Analytics to Identify the Levers That Make the Greatest Impact on In-Store Performance

In order to "do it right," marketers must understand which in-store activities actually drive volume and sales, and how. With those insights, marketing and headquarter sales teams can create goals, strategies and accountable owners and can more precisely communicate them to the field.

At the heart of this is establishing a validated ranking of in-store activities across shelf, display and feature. These metrics will arm CPGs and retail partners with the perspective they need to prioritize activities, thus sharpening execution direction and improving in-store performance.

Due to their importance to the P&L, these metrics become the hub of the wheel of a collaborative organization (see exhibit 2). Through collaboration, then, the organization can focus on change management to execute flawlessly across the metrics that matter most, driving growth that can support sales and market share improvement of up to five points.

EXHIBIT 2

One Path to Retail

Current Metrics Don't Cut It

To achieve maximum lift and the most effective strategies, it is imperative that in-store activities are driven by the metrics that matter most. For far too long, the theory behind optimal retail execution and merchandising strategy has not been considered. Many organizations behave as though branding and innovation are the sole keys to growth. Strategies are developed to manage those two important elements. Execution, though, has been an afterthought, and thus has been "handed over" to the field with little to no direction and/or consistent follow-through.

Furthermore, metrics have historically failed to evolve with businesses. Not staying in sync with—or ahead of—buying trends, behaviors, retail evolution and all factors contributing to overall performance will provide inadequate data. Metrics that don't cut it won't tell the story or appropriately direct strategy.

The marketplace today largely follows one of three KPI tracks:

- **Lifelong Commitment:** "That's what we've always done"—stick with the same metrics, no matter what changes in industry or business;
- **Mad About Metrics:** Metric everything! However, when everything is important, nothing is important.
- **Fluid Metrics:** Metrics change annually—a trial-and-error approach.

None of these approaches works particularly well, at least not over time. And in today's highly competitive marketplace, none of these approaches will drive growth or competitive advantage.

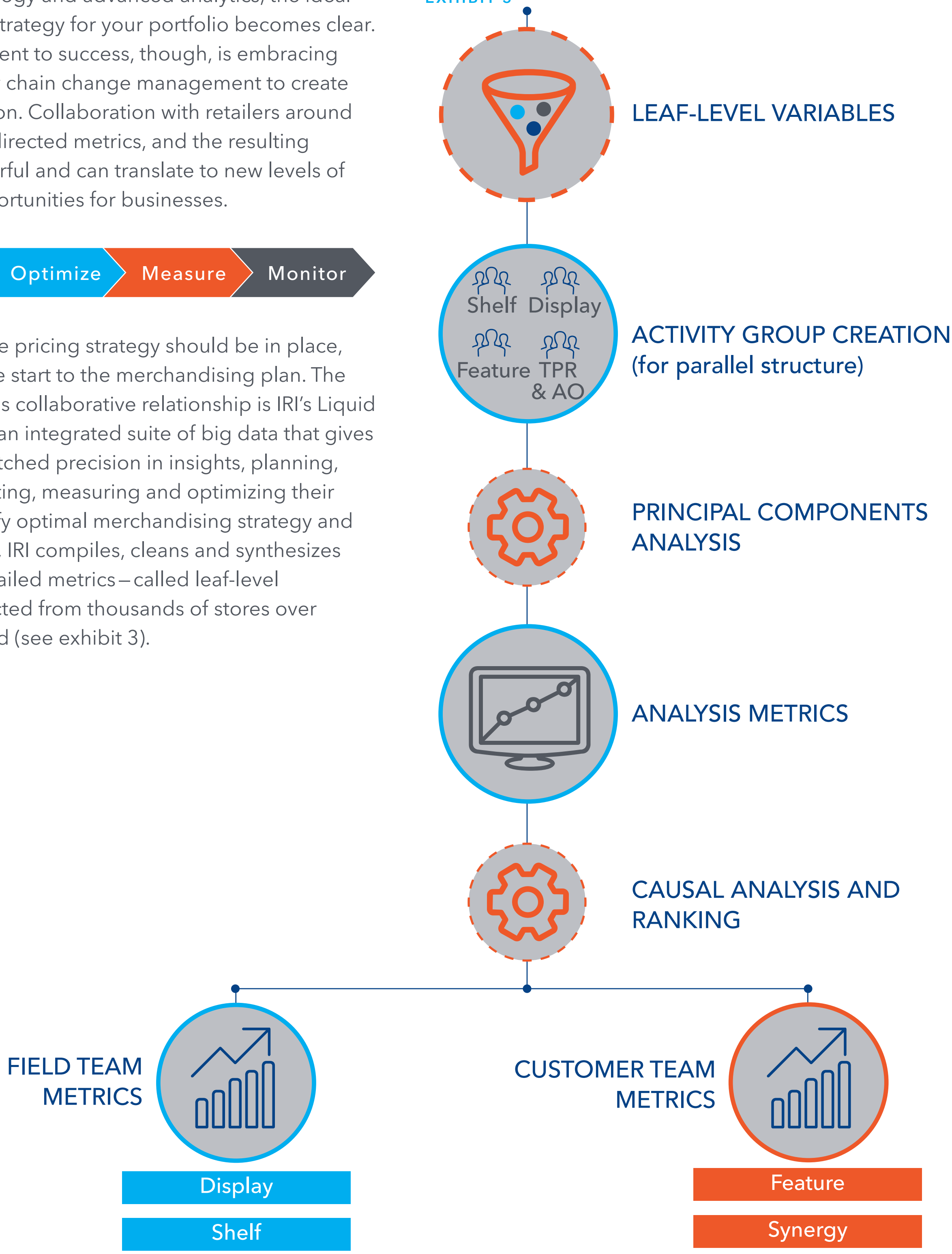
IRI's Metrics That Matter Strategy Captains the Journey to Winning at Retail

Through technology and advanced analytics, the ideal merchandising strategy for your portfolio becomes clear. The critical element to success, though, is embracing retail and supply chain change management to create true customization. Collaboration with retailers around thoughtful and directed metrics, and the resulting insights, is powerful and can translate to new levels of growth and opportunities for businesses.

Understand Optimize Measure Monitor

A comprehensive pricing strategy should be in place, ensuring a stable start to the merchandising plan. The foundation of this collaborative relationship is IRI's Liquid Data® platform, an integrated suite of big data that gives marketers unmatched precision in insights, planning, targeting, activating, measuring and optimizing their spend. To identify optimal merchandising strategy and tactical activities, IRI compiles, cleans and synthesizes hundreds of detailed metrics – called leaf-level variables – collected from thousands of stores over a 52-week period (see exhibit 3).

EXHIBIT 3

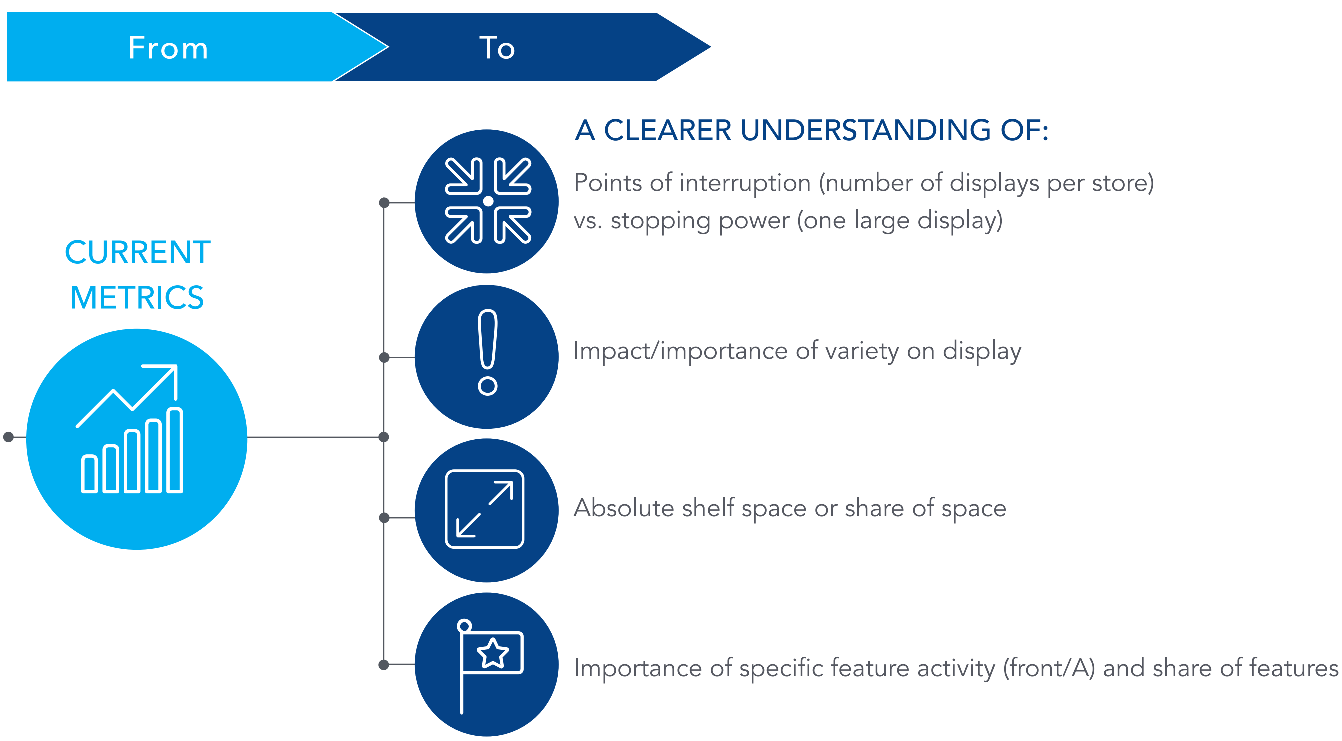


These metrics cross the three main components of in-store execution—display, feature and shelf—creating an understanding of activity drivers (after strategic pricing decisions are set). The variables are synthesized and analyzed through advanced analytic processes to create a clear causal picture of in-store performance for each of these tactics, both individually and collectively. Broader strategy is formulated from the leaf activities, which are translated to final metrics. The ranked metrics are assigned across different groups within the organization, giving all parties a clear—and shared—understanding of what winning in-store looks like. This is important across all categories but absolutely critical across highly merchandised categories.

As merchandising strategy and key activities become clear, category management and sales insights teams can better direct and enable in-store activity (see exhibit 4). Category management teams will have a clear purpose and be able to better define their short- and long-term goals and learning plans. Retailers and manufacturers can collaborate to allocate merchandising space and resources in ways that matter most for each category. Both partners know which activities drive sales and can better understand which activities should be the focus of deeper learning and tracking.

EXHIBIT 4

Illustrative Example: An increased understanding of key in-store variables



An understanding of specific in-store activities drives an improved merchandising strategy and better trade and broker management.

Insights Into Action

With Metrics That Matter (MTM) providing a detailed understanding of what is important, optimization provides the guidance on how best to execute those display activities by creating a clearer picture of the perfect store. Three in-store elements – each optimized against specific in-store conditions – must work in harmony to create maximum lift.

Merchandising – Shelf Location – Feature

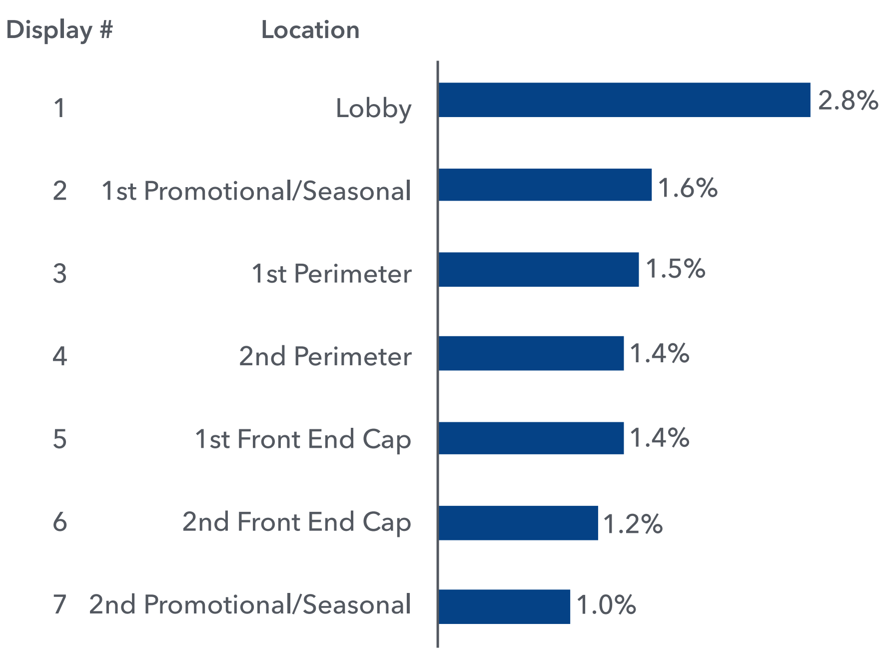
An optimized display has greater value than any number of half-hearted display concepts. To get it right, retailer-supplier partners must take into account a number of key questions:

- Type of Store
- Period of the Year
- Number of Displays
- Location of Displays
- What Is Placed on Displays

These questions beget even more detailed considerations. For instance, if points of interruption are key, which locations are best for which brands or packs (see exhibit 5)? By understanding lift by location, partners can focus efforts against those locations that will bring the greatest impact and eliminate less-than-ideal locations, reducing clutter in the store, enhancing the shopping experience and increasing return on merchandising investment, all at the same time.

EXHIBIT 5

Optimal Display Lifts



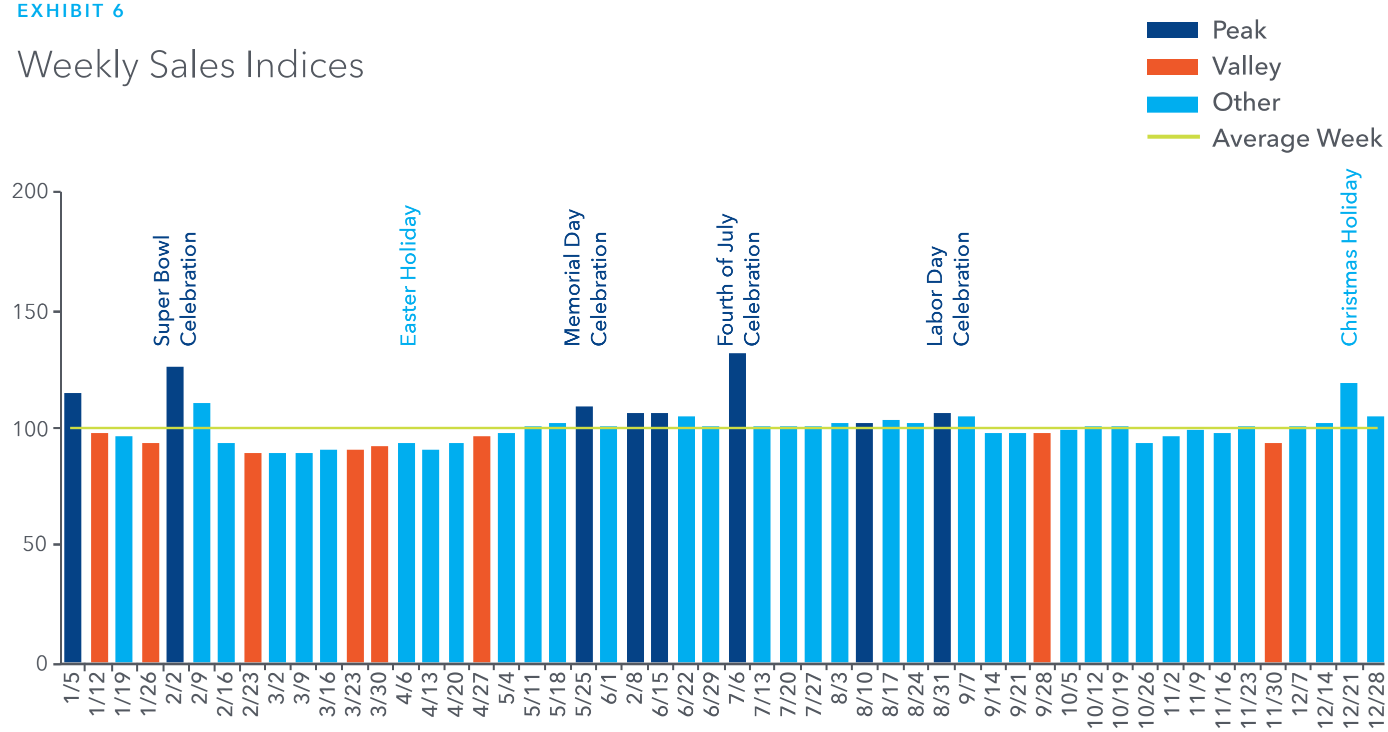
Similarly, analyses bring insight to timing-based considerations. Will the MTM principles developed hold for the entire year, or do they change during key seasons? Likely, there will be periods where adjustments are needed. In exhibit 6, for instance, sales peak during holiday periods, with Christmas indexing higher as well. At other times of the year, there are notable dips in velocity—shown here as "valley" weeks—revealing opportunities to dial back on inventory and/or adjust the delivery schedule.

Getting the home shelf location right is critical in a marketplace that is ripe with clutter. Shelf optimization allows for powerful planograms that grab the shopper's attention and drive basket size. Well-thought-out shelving principles address key decision points within the merchandising strategy:

- Allocation of space to the category
- Allocation of shelving within the category
- Best configuration for the category
- Management of brands and segments to drive velocity for both partners

EXHIBIT 6

Weekly Sales Indices



Illustrated in exhibit 7, for instance, analysis of key metrics against shelf allows retailer-supplier partners to customize linear footage within a particular retail location. In this example, share of linear footage allocated to Type 1 and Total Multipack is too high, leaving too little space for other soup types. This is negatively impacting store-level soup performance. By identifying this imbalance and making the appropriate shift, the retailer was able to make near real-time adjustments to the shelf, increasing category performance by 3 to 5 percent.

Finally, feature optimization helps manufacturers get better effectiveness from their feature ad spend. Through MTM analysis, manufacturers clearly see whether it is helpful or harmful to bundle multiple brands from the portfolio into one ad, or even if tapping into group ads with multiple manufacturers helps to move the needle.

EXHIBIT 7

Small Store Average Linear Square Feet by Segment

Segment	Current Average LF	Optimal Average LF	% Chg. (Optimal vs. Current)	Current Linear Feet Share (%)	Optimal Linear Feet Share (%)	Point Chg. (Optimal vs. Current)
Total Soups	199.4	240.0	20	100.0	100.0	
Type 1	72.6	100.0	38	37.4	31.1	-6.3
Type 2	50.0	90.0	80	24.2	26.2	2.0
Type 3	19.1	40.0	109	8.4	10.8	2.4
Type 4	14.4	25.0	74	6.3	6.6	0.3
Type 5	7.7	20.5	166	2.4	4.8	2.4
Type 6	6.5	12.5	92	4.0	4.5	0.5
Type 7	4.0	5.0	25	3.5	3.4	-0.1
Total Multipack	11.3	13.0	15	6.7	4.9	-1.8
Remaining Soups	13.8	25.0	81	7.1	7.7	0.6

Focusing on Metrics That Matter Supports Best-in-Class In-Store Execution

Once the MTM process is complete, manufacturers and their retail partners will have a clear understanding of the fundamental trade-offs they have most likely struggled with for years. The answers to these questions will differ by category, by manufacturer, by season and more.

The enhanced perspective that comes from identifying the metrics that matter is invaluable. It demonstrates to stakeholders that all recommendations have been well-researched and validated and are based on solid collection techniques and a rigorous analytic process.

When metrics matter across an organization, the atmosphere is an enabling one, eliminating silo thinking and marketing-versus-sales friction. There becomes a cross-functional focus on defined metrics, directing every arm of an organization to the same place—success and growth. Well-thought-out, strategic metrics will deliver a set of in-store principles that help create better playbooks and execution road maps, and they will create execution collaboration.

About IRI

IRI is a leading provider of big data, predictive analytics and forward-looking insights that help CPG, OTC health care organizations, retailers and media companies to grow their businesses. With the largest repository of purchase, media, social, causal and loyalty data, all integrated on an on-demand cloud-based technology platform, IRI helps to guide its more than 5,000 clients around the world in their quests to remain relentlessly relevant, capture market share, connect with consumers and deliver market-leading growth. A confluence of major external events—a revolution in consumer buying, big data coming into its own, advanced analytics and automated consumer activation—is leading to a seismic shift in drivers of success in all industries. Ensure your business can leverage data at www.iriworldwide.com.

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