



Operationalizing Assortment Optimization

A successful assortment optimization process incorporates the art and science of merchandising.

OVERVIEW

As competitive intensity increases and consumers are given more options, the imperative to have an optimized assortment has grown. But having the “right” assortment has never been harder. Not only do hard goods and grocery retailers have to contend with the proliferation of SKUs, they must also consider the trade-offs of national vs. private brands, keep up with the breakneck speed of innovation, and somehow satisfy customers’ dual desire for uniqueness and value, all of which cannot be properly addressed using the traditional spreadsheet-supported line review process. Rather, assortment optimization must be operationalized.

DEFINING OPERATIONALIZED ASSORTMENT OPTIMIZATION AND THE BENEFITS

Given the breadth of factors that go into the decision of what items to carry, the process of defining and implementing an assortment optimization capability requires an equally comprehensive approach. Kurt Salmon starts by assessing the client’s current assortment capabilities and best practices and benchmarking them against leading retailers. We also identify and quantify both the opportunities and any obstacles to implementation before helping the client to envision their ideal future state and drawing up a roadmap to get them there. As part of defining that vision of the future, the retailer needs to ask the following key questions:

Process

- » How does my assortment process integrate upstream (e.g., category strategy) and downstream (e.g., space planning and supply chain)?

People

- » What are the new skill sets required and do I have these in my organization today?
- » Are there support roles to help with the new process? If so, how do they relate to merchants/category managers (i.e., shared service or pod)?

Tools

- » How does this solution fit within the broader scope of assortment management?
- » What are the integration points with my other category management tools (e.g., clustering, space planning)?

Strategy

- » Who is my target customer and what is the value proposition I am delivering to them?
- » What degree of localization should I provide? How does this play in-store, online and across channels?

Data/Analytics/Insights

- » What differentiated internal and external data can I incorporate?
- » What analytics can I use to distill this data into actionable insights (e.g., demand transference/cannibalization)?

Once the new way of operating has been defined, we help the client to pilot, with or without a tool. Piloting yields learnings that will prove invaluable when it comes to developing the end-state solution and will allow fast movers to fund their efforts through the benefits being realized.

The benefits of operationalizing assortment optimization are top-line sales and margin improvements. The comprehensive process that Kurt Salmon developed to operationalize the assortment optimization efforts of a leading North American retailer, for example, resulted in an overall sales increase of 5% to 10%, and some clusters saw their sales double.

CORE STEPS FOR OPERATIONALIZING ASSORTMENT OPTIMIZATION

Realizing the value from assortment optimization requires putting into place a capability that will be enthusiastically embraced by everyone in your organization. In order to achieve that buy-in, hard goods and grocery retailers need to take a number of core steps:

- » Involve those merchants/category managers who have a high propensity toward analytics and rigorous decision making from Day 1 and make them advocates of the new way of operating
- » Demonstrate the benefits of assortment optimization by offering real-life examples
- » Provide the training, coaching and support to ensure adoption, as implementing assortment optimization is as much about change management and speaking the merchant language as it is about designing a new process/system

Finally, despite the enhanced focus on science, remember that merchandising is also an art. Assortment optimization augments—not replaces—the skills of a great merchant, namely that of knowing your category, staying in tune with your individual stores and the broader market, and collaborating with your vendors.

OUR EXPERTISE

At Kurt Salmon, we have deep experience helping our hard goods and grocery retail clients achieve operational excellence with assortment optimization. We specialize in taking strategies through detailed design and implementation all the way to value realization. Moreover, we provide customized change management support to ensure that every facet of your retail organization—from people to process to tools—is configured to support and sustain the adoption of an assortment optimization system tailored to fit your particular needs.

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